

Historic, archived document

Do not assume content reflects current scientific knowledge, policies, or practices.

84Mr
p. 3

RY
70

BUSINESS MANAGEMENT

OF FROZEN FOOD LOCKER AND RELATED PLANTS

By JAMES J. MULLEN
and LLOYD M. DeBOER
University of Illinois



Farmer Cooperative Service

U. S. DEPARTMENT OF AGRICULTURE

Marketing Research Report No. 258

June 1958

FARMER COOPERATIVE SERVICE
U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON 25, D. C.

JOSEPH G. KNAPP, ADMINISTRATOR

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, and membership.

The Service publishes the results of the studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

This study was conducted under authority of the Agricultural Marketing Act of 1946 (RMA, Title II).

CONTENTS

	Page
Foreword-----	ii
Summary and conclusions -----	iii
Introduction-----	1
Source of data -----	1
Arrangement of data-----	2
Applicability of recommendations -----	2
Chapter I. General management -----	5
Establishing goals-----	5
Formulating policies -----	6
Executing policies-----	6
Appraisal -----	7
Chapter II. Personnel management-----	13
Job analysis and evaluation-----	13
Maintaining a supply of competent personnel -----	14
Wage and salary administration-----	19
Personnel supervision -----	24
Chapter III. Financial management-----	29
Proper records needed -----	29
Objectives-----	30
Measures of financial return -----	30
Preservation of assets-----	36
Financial controls-----	41
Adequate financing -----	48
Chapter IV. Sales management -----	53
Market analysis-----	53
Sales Forecast-----	57
Sales promotion-----	59
Marketing policies -----	67
Chapter V. Production and office management-----	73
Techniques and equipment-----	73
Performance evaluation-----	78
Management of office facilities -----	80
Chapter VI. Evaluation of plants studied -----	85
Evaluation questions-----	85
Assignment of rating points -----	88
Appendix -----	91

FOREWORD

The frozen food locker industry is at a crucial point in its history. After its pioneering period in the 1930's, it made remarkable growth during and immediately after World War II. Now it is challenged by new competition, changing consumer habits, significant cost pressures, and new concepts of merchandising. Success in this essentially small business increasingly requires managerial abilities of a high order.

The importance of highly developed management skills in cooperative, individually owned, and other frozen food locker businesses has long been recognized by the U. S. Department of Agriculture, the National Institute of Locker and Freezer Provisioners, and other groups. Because of its 10 years' experience in working with business organizations on management problems, the Bureau of Business Management, College of Commerce and Business Administration, University of Illinois, was asked to make this study for the Farmer Cooperative Service, U. S. Department of Agriculture, under a marketing research contract.

The objective of the study was to identify the major elements of successful frozen food locker plant operation, evaluate present performance in selected companies, and provide a point of departure for management development in the industry. Dr. Lloyd M. DeBoer, Assistant Professor of Marketing, and Dr. James J. Mullen, Assistant Professor of Advertising, planned the project, conducted the field investigations, digested the collected materials, and brought their findings into this report.

The University of Illinois wishes to acknowledge the valuable leadership and guidance of L. B. Mann and Paul Wilkins, Frozen Food Locker Branch, Purchasing Division, Farmer Cooperative Service; and the assistance of Robert Madeira, Executive Director, National Institute of Locker and Freezer Provisioners, and J. L. Pidcock of the Illinois Agricultural Association.

Particular appreciation goes to the owners, managers, and employees of the locker plants that were appraised. They shall remain anonymous, but the thanks due them are nonetheless sincere.

Robert G. Seymour, Associate Dean
College of Commerce and Business Administration
University of Illinois

SUMMARY AND CONCLUSIONS

The more than 10,000 frozen food locker and freezer provisioning plants in the United States are an important segment of the frozen food industry. This is particularly true in rural areas where most of the locker plants were originally established -- many on a cooperative basis -- to provide farmers with facilities for processing and storing their own perishable products.

In recent years these plants have expanded their functions to include many related activities such as custom slaughtering, provisioning home freezers, and operating retail meat counters. As the activities of the plants have broadened, the importance of efficient management has increased.

A detailed study of eight carefully selected frozen food locker and related plants provided the basic data for this report. The plants studied operate under a variety of conditions and provide a wide range of goods and services. Their problems are representative of many of those confronting the entire industry today.

This summary presents the major points made in the report. It also appraises the general management of the plants studied and their performance in the fields of personnel, financial, sales, and production and office management.

General Management

1. One of management's primary jobs is to establish goals or business objectives. Most of the plants studied failed to establish clear-cut, realizable goals.

2. It is important to establish policies consistent with stated goals. The lack of such goals prevented managers from establishing policies. Performance in instituting policies to handle recurring problems was generally good.

3. A good manager must forecast the future of the business. A few had spent considerable time forecasting and planning. However, some seemed surprised at the occurrence of events they should have foreseen.

Personnel Management

1. A good locker plant manager knows what each job in the plant requires in the way of skill, training, and experience and he is able to evaluate each job in relation to others. If the typical manager was able to evaluate the jobs in his plant, the wage structure did not provide evidence of that ability.

2. Maintaining a supply of qualified personnel requires training present employees and developing a sound means of acquiring new personnel when needed. Most managers were weak at both tasks. In general, they did not train replacements for themselves, make much of an effort to improve the work methods of present employees, or develop a source of recruits.

3. Good wage administration is important in getting and keeping satisfied workers with high productivity. The major weaknesses in this area were associated with improper wage differentials among jobs, handling variable-hour work weeks during the year, and

reviewing future wage possibilities with workers.

4. The successful manager is expert at supervision, training, and delegation of authority. In the plants studied, there was a wide range of performance in these areas -- some good, some poor, some average.

Financial Management

1. Adequate records are a "must" for good financial management. An income statement and balance sheet should be prepared at least once a year. The records and accounting statements should be for the locker plant only so that the manager can make a meaningful financial analysis and evaluation. All managers kept some financial records but too many included other businesses in their records, did not prepare basic accounting statements, or otherwise failed to develop the financial records necessary for sound management decisions.

2. The key measure of a locker plant's financial success is the rate of return on the investment. All the managers knew the dollars of net income of their business and net income as a percent of sales. Few, however, had determined the rate and adequacy of return on their investment. Some owners need to include as an operating expense their salary as a manager before computing the return on investment.

3. To continue as a "going concern," a locker plant must preserve the assets of the business during its operations. Nearly all the plants had the problem of excess cash because of the large non-cash expense of depreciation. Some reduced this sum by withdrawals in excess of earned income which decreased the assets of their business. Excess cash arising from non-cash expenses should be kept in the business but should

be used in operations or invested to produce earnings.

4. A manager needs effective financial controls to insure proper and full utilization of the financial resources of the locker plant. Controls can be developed by use and analysis of one or more of the following: accounting statements -- balance sheet and income statement; statement of application and sources of funds; and budgets. Some managers used the first two devices but only one tried a budget. Generally, the development and use of these financial controls was very inadequate.

5. Adequate financing of a business requires a permanent type of financing to take care of all fixed assets and the working capital needed for the "normal" level of operations. Only half of the plants met this requirement.

6. The complexity and frequent revisions of tax laws make it good management to seek expert counsel on tax matters. Some managers considered adherence to the tax laws as all that was necessary for good financial management of their business. Such, in our opinion, is not the case.

Sales Management

1. Many locker plant managers need increased sales efforts to solve two related problems. One problem is the seasonal pattern of sales, a high volume in winter and a low volume in summer. The other is to obtain a sales volume which will permit efficient operation of facilities at any time.

2. The first step in a planned program for more effective sales effort is a thorough market analysis. This includes a detailed study of present customers as well as determination of present and future potential markets for each major product and service provided,

or to be provided, by the plant. The managers knew many of their customers fairly well but had only vague ideas on the market potentials for their products and services. Generally, they were alert to some of the changes taking place in the markets their plants served.

3. A sales forecast provides a goal for an organization and sets the level of operations for estimating the financial and physical resources needed and for establishing budgets. The volume of sales forecast depends primarily on the manager - what efforts he expends and how effective they are. Most managers assumed the past volume of sales would continue and were vague as to possible sources of an increase in sales volume. They generally felt they had no effective competitors.

4. The two basic objectives of a sales promotion program are to promote sales of products and services and to sell the locker plant as an organization equipped to handle, process, and freeze large quantities of meats, fruits, and other products. Specific objectives need to be defined for each sales campaign. The severest handicap to any sales promotion program is the limited imagination and energy of the manager. Most plants did only a fair job of sales promotion with objectives poorly defined, efforts somewhat inconsistent with stated objectives, and little variety in selling appeals. There was considerable disagreement as to whether food plans, or even quantity sales of meats, could be promoted on the basis of economy.

5. An integrated sales program requires the adoption of pricing and credit policies which are consistent with sales objectives and goals. A customer buys a bundle of goods and services in each purchase. Pricing policy, particularly for processing, gave managers the most difficulty. Part of their trouble was the result of a failure to determine

if the objective of the processing activity was to increase returns from business operations or to provide a service to customers. Inadequate knowledge of costs also made pricing decisions difficult.

Production and Office Management

1. Production control or scheduling is the basis for effective work. Some managers had done a good job of organizing and scheduling production, others had tended to drift along without specific planning.

2. Efficient production is facilitated by efficient plant layout and work simplification. Only one or two managers had arranged their plants with working requirements in mind, and only two had worked at the problem of simplifying tasks in the plant.

3. Plant costs are reduced through efficient management of physical facilities. Several plants enjoyed the protection of preventive maintenance, but a few were down-at-the-heels. Nearly all were kept clean.

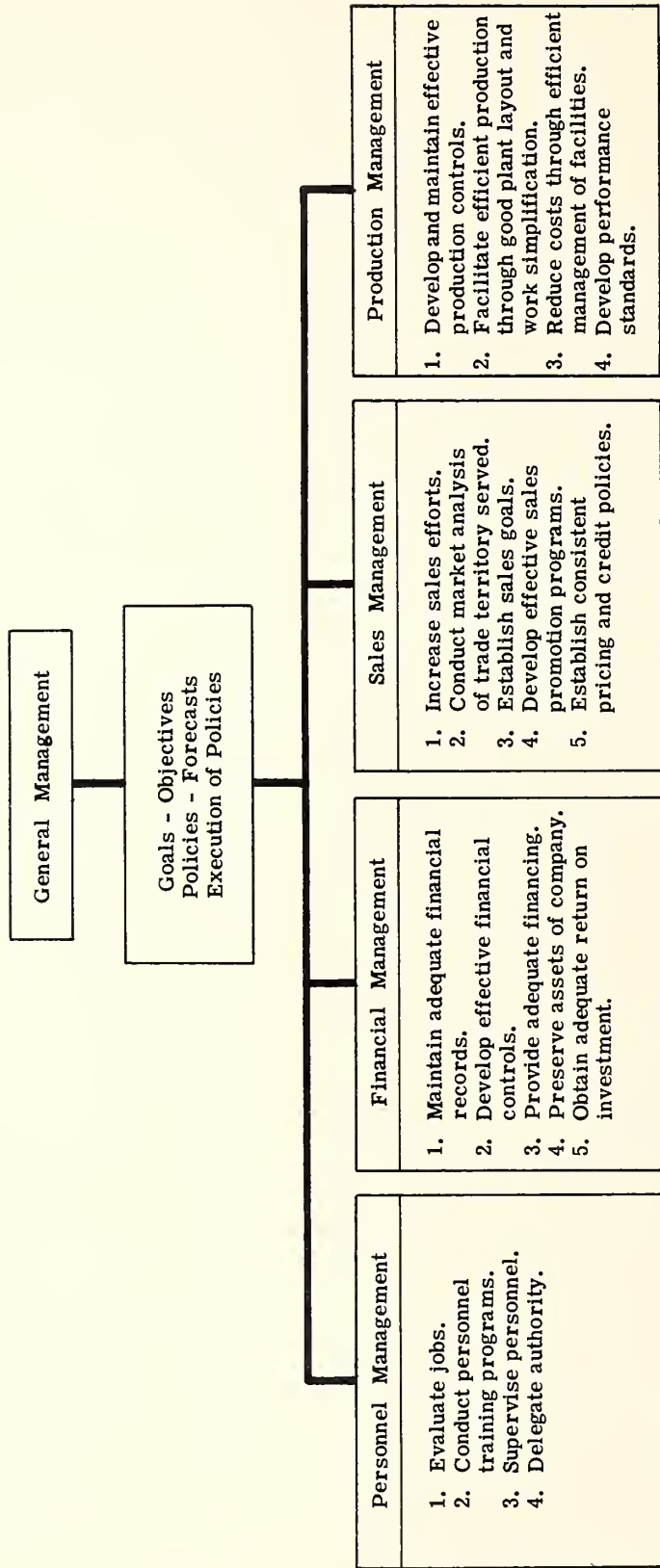
4. Performance levels can be raised only through performance evaluation. Few plants had a really good idea of what to expect of their workers or their plants. As a result, they were unable to determine what operations could be or should be improved.

• • •

The study was planned specifically to provide frozen food locker and related plant operators with a means to appraise their own management performance. However, managers of many other types of business can use it effectively.

If any business, large or small, is to operate successfully, certain tasks cannot be ignored. The functions discussed in this report and presented in the accompanying chart are common to all.

Management Functions



Business Management of Frozen Food Locker and Related Plants

by James J. Mullen and Lloyd M. DeBoer
*College of Commerce and Business Administration
University of Illinois*

The growth of local processing and freezing enterprises, often designated by the general term Frozen Food Locker Industry, has been an important development in the preservation of perishable foods. This is particularly true in rural areas.

Dynamic changes now taking place in the industry will test severely the capacities and abilities of managers of frozen food locker plants. Renting lockers and performing service functions for farmers, once the primary objectives of their plants, are losing their importance. To take up the slack in revenue caused by decreases in these two activities, to plan for future expansion, and in some cases even to stay in business, managers must become more competent and must merchandise their goods and services more effectively.

For some managers, this may mean reorganizing their plant operations; for others, it may mean tapping new markets such as those offered by home freezers and refrigerators with large freezer compartments. Each manager will need to study the situation in his own particular market area. The responsibility of analyzing and evaluating changing conditions and adapting plant operations to meet new demands is largely his.

The main purpose of this study is to present and discuss the elements of

good locker plant management. Successful use of the ideas presented is wholly dependent upon the initiative, energy, and art of each manager in relating them to his own operations.

Source of Data

Detailed observations of eight locker plants, informal visits to other plants, and interviews with persons active in the industry provided the data for this report. There is some question that any eight plants could be representative of every aspect of so diversified an industry as the "locker business." However, the plants studied were carefully selected to bring into focus most of the important problems facing locker plant managers.

These eight plants offer a wide range of goods and services and operate under a variety of conditions. Among them, one or more fall within each of the following categories: do little or no merchandising, or are primarily oriented to merchandising; cater to a farm trade, or deal principally with city customers; have only one plant, or have multiple plants; are single proprietorships or are cooperatives; and have or do not have slaughtering facilities. Another important criterion in selecting the plants was the quality of their management. Independent observers familiar with the locker plant business consider that each of the plants

studied is better than average in this respect.

Operations of the individual plants are described in the Appendix, but without specific identification.

The authors studied each plant for two or more days during the summer of 1956 to gather material for this report. They observed plant operations and talked with the manager and selected employees. They examined records, studied methods and policies, and investigated procedures. Some records were removed for further study and extracts were made of others. All plant managers were extremely cooperative and willing to provide any information requested.

There were two reasons for making the basic investigation during the summer months. First, the authors were free to make the study at that time. Second, summer is a relatively slow season for locker plants, and managers had more time to answer questions and give assistance. The authors studied two of the plants again in the winter to round out the report with information on changes and adjustments required during periods of higher volume.

Arrangement of Data

Businessmen frequently separate their thinking about management into several divisions, such as general, personnel, financial, sales, and production and office management. The organization of chapters in this report follows the same plan with a concluding chapter to evaluate the plants studied.

These are logical divisions. When a manager thinks of his business in such a manner, he is better able to set up departmental or sub-goals as part of the total business objectives.

Applicability of Recommendations

Some managers of small locker plants may think the activities recommended here are too detailed for the needs of their business. In a few cases -- but only a few -- this may be true. However, managers of most locker plants, no matter how small, will find that nearly all the points deserve their attention.

As an organization grows, the amount of management detail required grows in proportion. But at the same time, this larger business operation makes it practical for a manager to hire additional personnel to develop specialized information and to handle new activities. The fundamental tasks of management do not change as a business becomes larger. They only become more complex.

Perhaps this can be seen more easily with a comparison. Consider an industry-wide system of accounting. Such a system usually begins with several broad classifications which are used by all firms in the industry, regardless of size. The system has other accounts which represent detail that is unnecessary for small firms but required by medium-sized ones. Still more detailed subheads are offered for the largest firms in the industry to enable them to analyze their operations with greater precision.

Small firms have access to the same basic information as large ones, but they deal with that information in bulk form rather than detailed breakdowns. A small locker plant may find it adequate merely to know its total wage bill. A large firm needs wage information by departments, divisions, and perhaps functions in order to develop a cost analysis system.

This is true of each phase of locker plant management. Regardless of the size of their plants, managers perform comparable tasks and are called upon to solve comparable problems.

Chapter 1

GENERAL MANAGEMENT



The test of whether an idea is a dream or a goal is its practicability.

General management

Establishing goals
Goals and dreams

Formulating policies
The “exception principle”

Executing policies
Looking ahead

Appraisal
Policies and goals
Planning for the future

GENERAL MANAGEMENT

There are three basic steps to successful management -- establishing goals or objectives, formulating policies to achieve these objectives, and guiding execution of the policies. These steps are equally important in large and small plants; in single and multiple plant operations, in cooperatives and other types of businesses. How well each is handled determines the success of the business.

Establishing Goals

Planning and establishing business goals is a primary activity at the general management level. A business without a clearly defined objective is not likely to achieve a high degree of success. Such a business is aimless, and the policies established to guide its operation will probably suffer from lack of coordination.

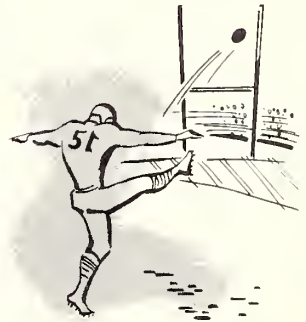
It is not enough just to have a vague idea of the purpose of the business and its goals. Both should be put in writing. This has a special advantage in that it forces the manager to state the goals in specific rather than loose terms. And it is important that they be real goals, not idle dreams.

Goals and Dreams

The difference between dreams and goals hinges on whether the objectives are realistic and capable of accomplishment. A businessman may say his "goal" is to start a business with \$1,000 capital and within 10 years retire on an income of \$100,000 a year for life. Or he may say that the goal of his business, which for years has had a gross of less than \$100,000, is to net \$50,000. A cooperative manager may say his goal is to pay farmers 25 percent above the going price for livestock. Now there is no reason why an individual or a cooperative shouldn't think big, but unless there is a practical way of achieving objectives, they cannot be called "goals." They are really only dreams.

On the other hand, the owner-manager of a locker plant may set a goal of adding facilities for custom slaughtering, or the manager of a cooperative may set as his goal a steadier market for livestock with an increase of 25 cents per hundredweight for

"GOALS---
KEEP THEM IN SIGHT"



premium quality. If these two managers write down their plans, determine that they are possible of attainment, and go to work on them -- then they have true "goals." They are not just dreaming.

The basic test of whether an idea is a dream or a goal is its practicability. Can it be achieved?

Formulating Policies

This leads to the second important function of general management, that of forging plans and policies to achieve the business objectives.

It is all too common for business managers to say they decide everything as it comes along without reference to a predetermined plan or policy. These managers argue that it is impossible to do otherwise because each situation which comes up requires different handling. Men who believe this are usually operating a less than successful business.

The "Exception Principal"

A good manager realizes he cannot decide every problem individually. Instead he follows the "exception principle." That is, he establishes policies which will automatically cover the vast majority of his problems, leaving only "exceptional" cases to be handled individually.

The exception principle also applies to delegating duties, responsibilities, and authority. An able manager assigns all routine responsibilities and recurrent problems to a subordinate and decides only the exceptional cases himself. With such an arrangement, the manager has time to devote adequate attention to those matters which require special handling. His is not burdened with routine.

Executing Policies

It is not enough just to have policies. The policies must lead logically to the stated goals. On many occasions, policies inconsistent with goals have been established. A retailer who has a goal of establishing his store as a quality leader with maximum prestige should be careful not to use advertising which gives readers an impression that the store is a "bargain basement." All policies should be reviewed periodically to make certain that they are consistent with the stated objectives of the firm.

Another important problem of general management is the task of making optimum use of the assets of the firm. This problem will be discussed under the heading of production management with respect to scheduling the activity of the business, and under financial management with respect to the use of cash.

Looking Ahead

General management must go farther than merely scheduling work on a day-to-day basis. General management must look ahead to see what business resources will be needed in the future.

This is more than sales forecasting, as described in the section on sales management. It means thinking ahead -- projecting trends in the industry, and determining what the character of the industry will be in the years to come. And it means providing equipment, funds, manpower, and organization to cope with the problems which lie in the future. This is not easy. It requires vision, business statesmanship, courage, and more than a little leadership.

But the alternative is business mediocrity or failure. The man who is to be successful in locker plant management or any other management must force himself to put aside the

problems of the day occasionally and think about the future of the business. The ability to do this, perhaps more than any other one thing, is the mark of a superior manager.

Appraisal

The eight locker plants studied by the appraisal team fell considerably short of the ideal in terms of the clarity of their business objectives. All of them had some sort of "dream" objective and some even had a real (but indistinct) "goal," but only one of the eight managers had a clear-cut definition of his firm's goal over a long-run or even a short-run period. Several indicated they planned to do "better than last year," but in general they did not state how much better or how they planned to accomplish the improvement.

One manager thought he could "quadruple" his volume. When asked where he could expect to find that much business (four times his current volume), he had little idea. When a much more modest 10 percent increase in volume was discussed, this manager did not know where he could get even this much. Clearly, he had no "goal" in the sense in which we are using the term here. He had a "dream."

Another manager said that he wished to reach a certain net income. He was asked how he could reach this figure, and his answer revealed that he had not thought out this vital problem.

One or two were fairly sure about some changes they planned to make in their businesses. They had not, however, thought about new objectives for the business after they had made the planned changes.

Several managers knew in general what they expected of their businesses, but this is not enough. A baseball pitcher can come much closer to putting the ball "letter high at the inside corner" if the catcher puts his glove up there to shoot at. So too, the businessman can come closer to reaching his goal if a definite target is there, and he has something to shoot at.

Policies and Goals

While most of the plants studied were doing a reasonably good job of establishing policies to solve recurring problems, the policies were not always consistent with the goals. For example, one manager established as a partial goal a considerable increase in sales of quarters and sides of beef. Yet in his advertising he was pushing the sale of retail cuts and had mentioned only once that he had quarters and sides for sale.

Another manager stated he planned to sell a certain number of home freezers a month with a given sales organization. He also had a total sales volume goal. On putting the two plans together it was seen that his annual sales goal would be more

than doubled by the sale of freezers alone if that quota were reached.

Perhaps the saddest example was the manager who indicated he didn't have any goals at all; he merely "drifted along." Of course, it is impossible to establish a consistent set of policies where no goals exist.

Planning for the Future

One manager had his goals rather clearly thought out, and his policies and plans were consistent with those goals. But what really set him apart from mediocre managers was that he was anticipating changes in the industry and had a set of alternative plans ready to go into operation if they were needed to achieve his goals. He is an excellent manager. He knows what he wants, he has planned the means of getting it, and he is ready with alternatives if his current plans do not bring him to his goals.

He is wise enough, too, to avoid moving too soon with an ill-considered plan. He is not going to abandon the business which has been kind to him and for which he established the firm to rush off in pursuit of a will-of-the-wisp. Instead, he has carefully considered any shift in the emphasis of his business in terms of the risk involved, the probability of success of the new venture, and the impact of the shift on his long and short-run goals. He has analyzed his situation and found little cause for alarm. His total revenue has declined, but net income has not. The result is that he has established a point at which he will adopt a carefully considered new plan. Until then, he will continue with the operating methods which have been successful in the past.

It should be noted that the point at which he will effect the change is defined in terms of net rather than gross income. He has already discovered that it is possible to drop a considerable volume

of business without a significant loss in net income.

Managers' Attitudes. - This type of manager contrasts with two other types. First, there is the "I don't believe in these newfangled ideas" type. Second, there is the "I'm going to hurry into something new because I don't seem to be doing so well the way things stand" type.

Both these attitudes are wrong. In the case of the first manager, time will pass him by. He may fail to see that a person with a "locker" (a freezer) in his home can be an even greater source of income than one with a locker in the plant. The second manager, seeing a decrease in the number of rented lockers, may alter the entire character of his business without considering the requirements of the new activities or properly protecting his heavy investment in plant and equipment.

Local Problems. - It is, of course, recognized that different sections of the country and different locations within each section have unique problems. It may be necessary to alter the character of the business sooner in a metropolitan area than in a farming community. But whenever the time for change comes, the good manager is ready with a well thought-out plan. Such a plan must consider (1) conservation of physical assets, (2) the nature of the market situation in which the business must operate, and (3) the experience, abilities, and resources of the management.

To illustrate: one of the better managers has a business devoted basically to serving a farming community although it is located in a city of about 35,000. Locker rental income has dropped somewhat, but processing volume has held up fairly well. Until now, the manager has not found it necessary to do much merchandising, but he is watching his

net income closely. He is also studying various food plans and developing a herd of beef cattle. If his net income on current operations falls below a pre-determined level, this manager is ready to put a new, integrated merchandising plan into operation. In the meantime, he will continue to provide outstanding services to his present customers as long as they require them, and as long as his business yields a satisfactory return.

He has neither abandoned his original business nor ignored the value of its assets simply because others found it necessary to make changes or because his gross volume dropped somewhat. And he will not hurry into a substitute plan (when one is necessary) without adequate preparation.



TAKE TIME TO THINK ...

Chapter 2

PERSONNEL MANAGEMENT



Successful leadership is based upon an understanding of the job and an interest in the worker's welfare.

Personnel management

Job analysis and evaluation

- Manager's method of analysis
- Simple evaluation procedure
- Appraisal

Maintaining a supply of competent personnel

- Training program
- Recruiting methods
- Personnel selection process
- Appraisal

Wage and salary administration

- Wages
- Hours
- Safety and working conditions
- Incentive wage plan
- Appraisal

Personnel supervision

- Performance standards
- Good leadership
- Appraisal

PERSONNEL MANAGEMENT

In dealing with personnel functions, managers of frozen food locker and related plants have four primary problem areas. They are: (1) Job analysis and evaluation, (2) maintaining a supply of competent, qualified personnel, (3) wage and salary administration, and (4) supervision.

Job Analysis and Evaluation

Not a part of the hiring process, but prior and necessary to it, is job analysis. It is impossible to find the right man for a job without knowing exactly what the job requires.

Job analysis is a detailed study of each job, how it is done, and by whom. Upon completion of the analysis, normally a job description is drawn up showing what is required. This covers amount of education, training, experience, physical requirements, skill and dexterity required; tools and equipment used; job hazards, personal qualities, terms of employment, supervision exercised over others and required from above; and lines of authority, communication, and promotion.

Manager's Method of Analysis

Because this type of analysis can become very complex, personnel authorities often recommend that it be undertaken only by a qualified person. The typical locker plant employing only four to eight persons probably would not find it economical to hire a consultant to make such an analysis. But good managers are accustomed to making some type of analysis of this sort, whether they call it job analysis or not. Those who do so knowingly usually do a better job of it.

A good manager does not take for granted that he knows all about all the jobs in his plant. He talks to employees holding the various jobs, and he may be surprised that they are doing things he didn't know about or failing to do things he thought they were doing. He does not trust to memory or assume that the qualifications of the men now holding each job are precisely the ones necessary. The fact that a slaughtering man has a high school education does not prove that a man with less education cannot do the job. Everything must be questioned until the minimum



qualifications for efficient job performance are determined.

Simple Evaluation Procedure

Once this is done, the manager is in a position to evaluate the several jobs in the plant. This is an important step in establishing a compensation plan which rewards the performance of each job properly with respect to other jobs in and out of the plant. Job evaluation can be very complex, but most locker plants can devise a simple procedure.

Let us suppose that the qualities considered important are: (1) education, (2) training, (3) experience, (4) ability to deal with the public, and (5) supervision ability. Select three or four jobs varying in salary from the lowest to nearly the highest, whose duties are clearly defined and whose rates are not subject to controversy. Evaluate all other jobs in relation to these key jobs.

Whenever a judgment is made, it is made in terms of a comparison. The rater can say to himself that the job of slaughterer has less responsibility than that of head meat-cutter but more responsibility than that of meat wrapper; that it more nearly resembles the job of curing man but has perhaps just slightly less responsibility than that position.

Obviously there will be local differences. A plant which takes particular pride in curing may place special emphasis on a curing man's training. Values placed on certain skills in businesses outside the locker industry must also be considered. Even though the rating may indicate that a curing man is worth more than a meat cutter, competition for the services of a meat cutter from a local supermarket may cause an adjustment in wage rates if a competent man is to be obtained.

Appraisal

Not one of the locker plants included in the study had a formal policy of job analysis, description, and evaluation. This important personnel function was not entirely ignored, but it was not being performed systematically. Therefore, the opportunity for errors and inequities was greatly increased.

There was evidence in several plants that wages, instead of being based upon an appraisal of the contribution of the job, were based upon the principle that the squeaking wheel gets the grease. In a number of cases wages appeared based upon such factors as family relationship of job holder to owner, and attitude of manager toward the job holder. In general, it probably would be fair to say that managers did not evaluate and compensate a job. Instead, they tended to reward the person holding the job. This, of course, brought overcompensation as well as undercompensation.

Most of the managers performed better in the area of job description. None of them had put the descriptions on paper, but they usually knew at least the major job requirements. However, putting the descriptions on paper is advisable as they serve to remind the manager of all of the job requirements. This is particularly helpful when interviewing applicants.

A written job description can fill the same function as an airplane pilot's check list. Even though the pilot knows how to land an airplane, if he has before him a list of the things he must do, he is not likely to forget an important step.

Maintaining a Supply of Competent Personnel

Perhaps the most important single thing a manager can do to insure a supply of qualified personnel is to establish

policies which will make present employees (a) wish to remain on the job, and (b) maintain or improve their skills.

Some of these policies have to do with wage administration and supervision and will be dealt with in those sections. One of the chief policies discussed here will be development of a training program.

Training Program

Some managers believe only new employees require training. Actually, experienced workers may need training as much as new employees. This is true when they have learned to do tasks incorrectly or inefficiently. It is easier to train a new employee to do a job correctly than it is to change the habits of someone who has been doing it wrong for years.

In a good training program in a business the size of the typical locker plant, the manager or a supervisor should (1) work for short periods with each employee, old and new, to see that each knows his job and the best way to do it, (2) train each employee in at least one job other than his own (for plant flexibility), and (3) train a "key man" replacement for the manager.

This last point, developing a key man, requires further discussion. A good manager realizes that sooner or later he will be away from the organization, temporarily or permanently. At such times many small businesses go under because no replacement has been trained. A new manager who has had no previous specific training for the job often has wide gaps in his knowledge of how to run the business successfully. It is important to the continuing life of the business that an understudy be fully trained to accept the responsibility of management.

Employee
Qualifications:
✓ education
✓ training
✓ experience
✓ ability to
deal with
public
✓ supervisory
ability

Recruiting Methods

The first step in avoiding hiring mistakes is developing good recruiting methods and sources. Although the typical locker plant may hire only one or two new workers a year, it is extremely important that they be selected with great care. Two "mistakes" in a work force of eight means that 25 percent of the employees are not effective.

The advantages and disadvantages of seven recruitment methods are discussed here. Local conditions are an important factor in determining which ones would bring most satisfactory results to an individual locker plant.

Classified Advertising. - This method has the advantage of bringing applicants in fairly large numbers, but it frequently means the manager will waste time sifting through a number who obviously are not qualified. This disadvantage can be partly overcome by running "blind" ads which give only a box number, not the plant name or address.

Recommendations of Employees. -

Relatives and friends of satisfactory employees are often good prospects. A loyal employee will seldom jeopardize his own position to find a job for a worthless relative or friend. However, a manager must be careful not to discourage some employees by seeming to favor the relatives or friends of others. And, of course, it is usually unwise to place any employee under the supervision of a close relative or friend.

Applicants Coming to the Plant. -

If only one or two persons are hired a year, it is unlikely that a manager would have the good luck to have a qualified person drop in just when he was needed. It would be prudent, though, to keep a file of people who come in and include information as to future availability.

High School Placement Counselors. -

This source can be particularly effective in a community which has a vocational school or course of study. However, even in a country school, teachers often can suggest young people interested in employment. Recruiting from high schools means that locker operators must do a considerable amount of training, but many find this effort worthwhile.

Employees of Other Locker Plants. -

This is often a dangerous source of employees. First, the fact that a manager is able to hire an employee of a rival plant means that the man may be equally ready to change employers again. Second, it is usually necessary to pay more than the competitive wage to attract an employee away. This could lead to bidding up the wage level artificially. Third, this practice often leads to discontent among present employees. It is natural for employees of long standing to resent a newcomer's higher wage or more favorable treatment.

There are some occasions when hiring the employee of another plant makes sense. A town may offer personal advantages such as good recreational facilities, proximity to relatives, better shopping facilities, or good schools and churches, which influence a person to move there.

Promotion of Present Employees. -

Promoting a present employee and replacing the person at the lower level job is sometimes more satisfactory than finding a suitable employee at the higher level.

This practice has several advantages. First, a manager knows more about his present employees than he can possibly learn about an outsider before he is hired. Second, there are more sources of recruits for a lower level job, and mistakes at the lower level are less serious. Third, promotion of qualified persons leads to high morale and efficient production.

Miscellaneous Sources. - Employment agencies and state employment services can sometimes supply employees. Locker plants in rather large cities are in a better position to use these sources than those in smaller communities. Even there, however, use of these sources probably would be limited.

Personnel Selection Process

The second step in the personnel program is developing a sound selection process. This ordinarily means a standard application blank, an interview, reference checks, physical examination, and perhaps employment tests.

The Application Blank. - An invaluable aid to the hiring process is a well-designed application blank which obtains all necessary information without

supplying unneeded data. For most locker plants, necessary information would include name, address, telephone number, physical defects, previous employment, education and training, and possibly character references. Questions concerning religion, race, or nationality are illegal in many areas.

Do not expect too much of an application blank. It should be regarded only as the first step in the hiring system. It eliminates the obviously unqualified and provides a point of departure for the interview.

Interview. - By observing a few basic principles, a locker operator can do a creditable job of interviewing. First, the manager should remember that he is not the subject of the interview. Some people use the interview to give information rather than to obtain it. Of course, it is necessary to provide the applicant with facts which will help him decide whether he would fit properly into the organization, but the manager should be careful not to "sell" his business so hard that he fails to learn about the person being interviewed.

Second, the manager should do more than merely review the application blank. He should use it to determine what points need further development. It almost always provides him with a lead-off subject to put the applicant at ease. For example, if the applicant was born in Colorado, he might be put at ease by having an opportunity to talk for a few minutes about mountain climbing, fishing, hunting, or other outdoor activity. A relaxed applicant is likely to answer questions more accurately, and he is also likely to have a friendly feeling toward the interviewer and the company whether he is hired or not.

Reference Checks. - Even though, in general, applicants list as references only people whom they are certain will praise them, it is a good idea to check references. Sometimes an applicant will take a chance and list as a reference someone of unquestioned standing in the community whom he knows slightly or not at all in the hope that just the name will get him a job. Letters of recommendation should be given careful attention. By reading between the lines, a manager may discover qualities which would render an applicant unsuitable for the work for which he is being considered.

It is always important to check with former employers. They can usually be depended upon to give a reasonably good idea of the person's work habits and other important data.

Physical Examinations. - In many states, food handlers are required to have a physical examination. Even where it is not required by law, this is advisable for all new employees. It need not be done until the applicant has been accepted on all other counts.



PRESENT EMPLOYEES
... good recruiting source

Selection Process:

1. application
2. interview
3. references
4. Physical exam

Employment Tests. - A number of aptitude, personality, and achievement tests on the market today might possibly be used as selection devices in the food locker industry. One of the plants studied was using such tests. However, it is not recommended that these be used without expert guidance. Much testing of this sort is in an experimental stage. In other cases, the testing procedures are not adapted for use by a business hiring only a few people each year.

Appraisal

Most of the locker managers included in the study were doing a reasonably good job of training new employees, but they frequently left the experienced worker to his own devices. This may be because the manager did not know some individual jobs as well as the workers did. In other cases the manager seemed to feel that workers would resent interference with the way they do their jobs. Only one or two managers in the group had what could be called a planned program of job training.

Management performance in terms of preparing workers to do several jobs was very good. All plants in the study had a fairly high degree of flexibility. This means that the injury or illness of any one worker would not force the operation to limp along; someone else could fill the vacant job.

There was one general exception to this statement. The enforced absence of the manager for a period of two weeks or more would damage the operation severely in all but one of the plants studied. Several other managers recognized that this problem existed, but either they were not able to locate a man who could be trained at the proper level or they had not taken the time to do so.

Recruiting Sources and Methods. - Several managers were confident they

would be able to recruit necessary employees when the occasion arose. Perhaps they were overconfident, for discussion seemed to show their sources of applicants to be extremely limited. It is possible that several good sources were being overlooked entirely. Good workers are not so plentiful that any likely sources should be neglected.

One manager was very much aware of the need for developing sources. He maintains contact with high school counselors and vocational training teachers even when he has no immediate need for workers.

Nearly all operators used some type of application blank. The cooperatives used a form developed by their parent organization and most of the other operators used a blank developed for general use. Since many of the blanks were designed for hiring people in other industries, they should be re-examined to see whether they include all information necessary for the effective selection of locker personnel.

Although locker managers were not directly questioned about their interviewing practices, it appeared that, for the most part, one person was interviewed and he got the job. There did not seem to be a genuine "selection" process in which an employee was selected from several applicants.

Managers, especially those in smaller communities, seemed to believe they did not need to check references because usually they already knew the applicant to some degree. Obviously, where this is true, reference checks are often unnecessary, but it is not wise to overlook this step when dealing with an "outsider."

Personality Tests. - One of the eight locker plants had been experimenting with the use of personality tests in selecting personnel. It is perhaps too early to determine their success, but

those selling such tests generally do not recommend their use by small business firms without expert counsel.

Periodic physical examinations for employees, other than as required by law, are not common in the industry, but the practice has a number of advantages. It offers protection in the event of a damage suit by a customer who may have contracted some disease. It also minimizes the chance of losses caused by employees suffering injuries due to failing health.

Wage and Salary Administration

Wage administration probably has more direct effect upon plant morale, and greater direct or indirect effect upon productive efficiency than any other part of personnel management. Good managers realize, too, that more than the number of dollars in the pay envelope is involved in wage administration. Thought and planning must be given to such factors as vacation and sick leave policy, promotion policy, pensions, hours and working conditions, and the use of incentive systems.

Wages

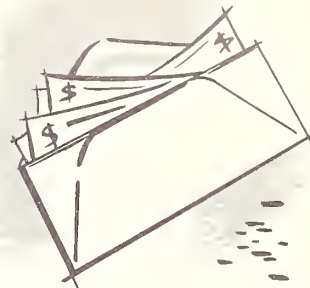
A number of factors affect the wages paid to employees. The Wage and Hour Law and other laws have an important influence. A locker operator may believe that he is not engaged in interstate commerce and thus Federal minimum wage laws do not apply to him. However, certain activities of locker plants have been interpreted as in interstate commerce and managers should study the provisions of this law carefully.

The wages other employers in the community are paying will put pressure upon a manager to meet competition. Union wage contracts negotiated in an area affect local wage levels even in plants that are not organized. Changes in the cost of living are another strong influence on wages.

The alert manager will recognize these influences. When income makes it possible, he will adjust wages before strikes, high turnover of labor, or court action make it necessary.

Determining Wages. - The subject of the general level of wages is perhaps of less immediate concern to most managers than distribution of the available wage fund to individual employees. This latter subject is also of major concern to employees. Sometimes wage differentials between workers become more important to employees than the actual number of dollars received.

Job evaluation enters into this problem area. It can be seen readily that arbitrary wage classifications or amounts paid can lead to endless arguments with dissatisfied employees. Worse still, there is no solution short of removing the dissatisfied



WAGE ADMINISTRATION
... more than just \$ in
pay envelope.

Wages
Vacation
Sick Leave

employee from the payroll, unless an employer has something tangible upon which to base his wage decision.

Salary Range. - Unless a union contract requires the establishment of a single wage rate for each job, it is usually better to have a range of compensation. The pay for a wrapper might be established as from 85 cents to \$1.20 an hour. The 85 cent figure would normally be used for beginners, perhaps the next 15 cents up to \$1 an hour would be automatic increases, and the final 20 cents would be for proved merit.

Each job would have a similar range of pay with provisions for automatic and merit increases. If a job evaluation showed that a processing man was worth 50 percent more than a wrapper, the range for that job would be about \$1.25 to \$1.80 an hour.

Every employee in the organization should have a clear understanding of the salary range for each job that he performs or to which he might be promoted. At least twice a year the manager or supervisor should have a conference with each employee, in which his performance is reviewed and his compensation adjusted, or an explanation offered why it will not be adjusted.

The employee's progress, the areas in which his performance has been satisfactory or unsatisfactory, and what he must do in order to earn further pay increases or promotions can also be discussed. It is a good idea to keep a record of each employee's strong points and his weaknesses so that facts are ready for these conferences. It will not do to generalize.

Hours

Some locker plants come under the jurisdiction of Federal and State wage and hour laws. In such cases, working

weeks longer than 40 hours are impractical. They are also impractical where union contracts call for overtime payments for hours over 40 in a week.

Since most locker plants operate on a 6-day week, determination of the working hours is a problem, complicated by the fact that not all employees are needed for the same number of hours a week. Many locker operators resolve this problem partially by paying a weekly wage and expecting everyone to work while the plant is open. However, at times this procedure leads to a waste of wages. If the lockers must be available to the public 54 hours a week during the summer, but the processing people can complete their work in 35 hours, a weekly salary based upon 54 hours results in paying processing employees for 19 hours of idle time.

Annual Level Wage Plan. - Nothing said here is intended to discourage efforts to have some type of annual level wage plan which is coupled with variable work weeks. In such a plan, credits for work over a specified number of hours a week (perhaps 48) during busy winter seasons can be carried forward to slack summer periods when fewer hours are worked. With this type of compensation plan, care should be taken to have adequate working capital during periods when wage payments are relatively high and income relatively low.

Most plant operators are aware of the problem of keeping good employees when work is seasonal. Rarely is it possible to get good people to work only during peak volume periods or to work so few hours a week during slack seasons that their incomes are below a reasonable level. That is the reason some operators have developed a type of annual level wage plan.

Other solutions to this problem include using a weekly salary (rather than an hourly wage) and requiring that all

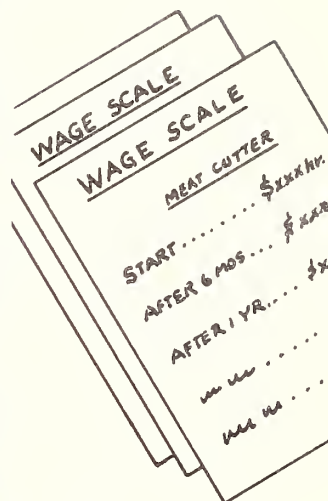
work be completed each week as necessary. The chief danger in such a plan is that, while it is similar in nature to the one just discussed, employees do not understand that they are being subsidized during the slack season.

Some are prone to believe that the salary is adequate compensation during the slack season but that they are inadequately rewarded during the busy season. In other words, they think that the salary is adequate only for a normal work week and that they should get extra pay during the 60 to 70 hours a week period.

Vacations. - One method of eliminating part of the problem arising from the seasonal nature of the business is to require all employees to take their annual vacation during the slack period. Many progressive businesses award two or more weeks' vacation to employees who have two or more years of service. If these vacations are taken during the slack period, the cost to the business of a second week is negligible and it results in higher morale.

In recent years, more firms have been establishing a policy of granting sick leave of up to one day per month of service. This policy may not ring the cash register, but competition for the best workers may cause locker operators to think rather seriously about it.

Also, today nearly all large businesses are granting some type of pension to supplement Social Security. It is a pretty good rule that what large businesses do today, small businesses will do tomorrow. Good locker management is looking ahead to plan the type and amount of profit sharing or pension payment it may eventually offer employees.



Safety and Working Conditions

Aside from its humanitarian aspects, the practice of providing a safe and attractive place for employees to work is sound business. Accidents are costly in several ways. First, they may permanently injure an employee, causing the loss of his services, the assumption of an enormous financial liability, and/or the placement of insurance premiums in a very high bracket. Second, they can make a plant appear a poor place to work, making it difficult to get high quality personnel.

Workmen's Compensation Laws. - An employer's responsibility for an employee who is injured while at work is defined by Workmen's Compensation Laws in every State. The theory of this law is that costs of industrial accidents are part of the costs of production and as such should be borne by society and not an individual employer. The law is different in each State so each employer should check to see if his business is covered by it and, if so, what it requires of him.

Some are compulsory; some give an option to the employer, or the employee, or both as to whether they choose to come under its provisions. All the State laws provide for disability (with medical benefits, including hospitalization) and death benefits, but vary in the basis of determination and the setting of maximum and/or minimum benefits. Most States permit the employer to provide for his responsibility by insurance in private companies. State insurance systems exist in several States.

Safety Program. - Actually there is a lot of truth to the slogan, "Safety is no accident." A good safety program takes planning and instruction of personnel. It requires a locker operator to see that all equipment has safety devices and that his employees use them. It also means that he must make his employees aware of the need to do things the safe way. All new employees should be given instruction in safe operation of equipment, and the importance of working safely should be stressed at least two or three times a year in organization meetings.

Attractive Surroundings. - While it is easy to see the advantages of providing a safe place to work, the advantages of providing an attractive place to work are less obvious. Some may feel that good ventilation and lighting, lavatory facilities, freshly painted walls, and roomy work spaces, while desirable, are an expensive luxury. But studies made by industrial engineers and psychologists have confirmed many times that these things, too, are good business.

Improved lighting invariably reduces accidents and errors and almost always increases production. Experiments with better ventilation have consistently shown improvements in production. The same is true where experiments have been

conducted to test such things as new paint, cleaning rest rooms more frequently, providing space and facilities for "coffee-breaks," and enlarging work areas. In practically every case, these improvements added enough to workers' morale and their pride in their work and company to more than pay for themselves.

Suggestion Plan. - Another institution which more than pays for itself is a suggestion system. Businesses are run on ideas, and many of the best ideas come from employees. Perhaps it is impractical to have a formal suggestion system in a business employing only a few workers, but ideas and suggestions should be encouraged no matter how small the business. Cash awards should be made when ideas result in a saving for the firm.

Incentive Wage Plan

It is sound business to reward activities which result in a saving. That is the essential basis for incentive wage plans. Many small businesses today are finding that some type of piecework or bonus payment leads to higher productivity.

If such a plan is to be followed, it must be easily understood, there must be complete agreement as to the basis for payment, and accurate records must be kept to justify payments. Many authorities believe that a small business can use an incentive system successfully only if the system is very simple and requires a minimum amount of record-keeping.

Appraisal

In general, most locker plant managers were alert to the need for paying considerable attention to wage administration. For the most part, managers

paid wages in line with those in the community. In view of the current pressure to raise the minimum wage, plant managers should brace themselves for a probable increase in wage rates.

Wage Differentials. - Most managers seemed to recognize the need for maintaining proper wage differentials among jobs. In one or two cases, even though the need was recognized, proper differentials were not being maintained. If the minimum wage is increased, this problem is likely to become more acute. Therefore, good managers are planning wage differentials which will be operational when and if it becomes necessary to increase the wage of the lowest paid worker in the plant.

None of the plants studied had an organized plan of job review conferences with employees. Managers in small plants may feel that their personnel know where they stand at all times, but such usually is not the case. An employee who has been told that he has a raise in store when he reaches a certain level of performance is much more likely to strive to reach that level and to avoid shopping elsewhere for a job than one who does not have such information.

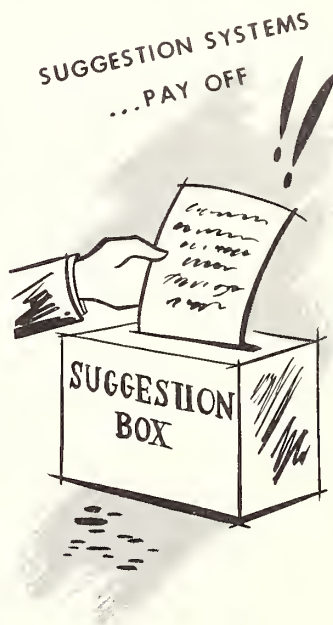
Working Conditions. - An area of management policy more difficult to evaluate accurately is that of hours and working conditions. The industry is plagued by the highly seasonal nature of the business. A system of compensation which allows adequate consideration to the need for variable-hour work weeks during the year is difficult to devise if it is to be applicable to all areas and types of plants. Managers should try to learn with indirect questioning whether there is any dissatisfaction with the present plan, and, if so, make some adjustments.

Nearly all the plants studied had a modern attitude on vacations, but only a few had a definite sick leave policy. Managers indicated that sick leave granted to employees was on a somewhat paternalistic basis.

All but one of the plants studied was doing a reasonably good job of offering the employees a clean, decent, and attractive place to work. One was handicapped by very inadequate space.

Incentive Systems. - Three of the eight plants visited were experimenting with some type of incentive system. One had a direct incentive system based upon piecework, but only part of the organization was paid on that basis. The other users of incentives paid bonuses to supervisory employees based upon net income, and one of them in addition paid monthly bonuses to several employees based upon gross sales. None of these felt certain that their plans were unqualified successes.

Other managers had given some consideration to piecework or other incentive systems and had decided they were unable to work out any fair and satisfactory plan. The chief merit to this



position is that much of the work in a locker plant is not of a repetitive nature, and cannot therefore be compensated on a piecework basis. However, other incentive systems might work. Caution should be exercised in giving volume bonuses, as some types of volume add nothing to net income.

Personnel Supervision

In a typical locker plant, the manager is his own supervisor, but he cannot always be on the job. Business activities, conventions, illness, vacations, and other activities may take him away from the plant for short or sometimes fairly long periods of time. A good manager prepares for these events by choosing and training a "stand-in" who can replace him temporarily. It is important that all employees be aware of the status of the manager's "alter-ego," and that they be conditioned to taking orders from him.

The best way to build up the prestige of this person and to make his job easier is to have orders flow through him while the manager is present. He should be responsible for such things as the order of the day's work, assigning tasks to other employees, purchase of supplies and other inventory, and finally, scheduling work a week at a time. At first, it will take time to develop the "key man," but the effort will be well worthwhile. Transferring some supervisory duties will permit the manager to have more time for other necessary activities.

But whether the manager does the supervision himself or delegates the job to someone else in the organization, a number of functions must be performed. The supervisor must organize and plan the work of others, delegate responsibility and authority, set performance standards, train workers, review performance, set up a grievance procedure

and provide positive leadership to the workers.

Whenever more than one person is needed to accomplish a job, it becomes necessary to develop plans and methods for the group effort. To do this successfully, the manager must see to it that (1) each individual has only one boss, (2) no supervisor attempts to control the work of too many individuals, (3) each person is given a particular job to do and is not a "jack of all trades," and (4) responsibility and authority are delegated to the lowest possible level.

Performance Standards

It is also the responsibility of supervisors to establish performance standards. Meat cutters should know how many pounds they are expected to process in a day, and salesmen must have a quota of freezers, food plans, or frozen food sales. An employee cannot be criticized for poor performance unless both he and the supervisor know exactly what is standard performance.

A particular plant probably cannot take intact the work standard developed by someone else in the industry, as it has its own working conditions, wage levels, and other considerations. But, a manager can gain something by comparing notes with other managers on what their employees are expected to do. The performance reviews mentioned in the previous section on wage administration would be meaningless without developing some performance standards.

Another important function of the supervisor is the training and instructional activity mentioned in the section on developing and maintaining the labor supply. Training is a continuous activity of the supervisor. While performing this function, the supervisor has an opportunity to exercise his leadership.

Good Leadership

The good supervisor doesn't expect to get the whole job done by himself. He does it by getting others to accomplish the task by following his leadership. Leadership is most successful when it is based upon close study and intimate knowledge of the workers, a genuine interest in their welfare, and an effort to make them want to follow because they respect the supervisor.

Fundamental to gaining the respect of the workers is giving sensible orders without barking or hysteria; avoiding reprimanding a worker before others; giving praise when it is due; keeping all promises; never altering a worker's pay, hours, location of tools or equipment, or privileges without consulting him and explaining why it is necessary; and being willing at all times to listen to any grievance, real or imagined.

Appraisal

As mentioned earlier, management in the locker industry has been deficient in developing replacement for itself. This is an important function and should be attended to.

In the related area of the delegation of responsibility and authority, there was a wide range of performance. In two plants, almost everything was delegated as far as possible. This was done well in one plant and poorly in the other. In the latter, there seemed to be no control at all. The manager had not really delegated authority. He had abandoned it.

The small size of most of the plants took care of several organizational problems more or less automatically. No plants showed a division of authority; that is, two bosses to the employee. Neither were there instances of attempts to supervise too many people. But the size of the business was an important factor in requiring workers to do a variety of tasks. The multiplicity of tasks and the small number of employees makes it difficult or impossible to do much about this situation.

Individual Performance. - Almost all the managers contacted had an idea as to the maximum output which could be performed on each job in a day, but none seemed concerned over the failure of their employees to attain this output regularly. They seemed to have no doubt but that the employees would accomplish everything which had to be done daily; therefore, there was no point in worrying about the attainment of any standard of performance.

Such an attitude can be justified only if it is not possible to reduce the work force by increasing personal productivity. The trouble here seems to stem from the same source as the difficulty in establishing an incentive system; namely, each worker is responsible for many tasks and it is not practical to have a standard and to record performance on each task. Perhaps such



"Every manager needs an understudy"

Leadership:

✓ Delegate authority

✓ Know your worker

✓ Gain their respect

✓ Listen to

grievances

✓ Keep all promises

✓ Praise when due

beginning

an argument has merit, but managers should not be too eager to accept it without thorough investigation.

Quality of Leadership. - In the plants studied, the quality of leadership was reasonably high. Nearly all managers were skilled in handling their employees

and had obtained their respect and cooperation. There were differences in degree, however. Two or three of the managers exhibited an extremely high degree of leadership; one or two were only average.

Managers ranked high in maintaining good morale among their employees.

Chapter 3

FINANCIAL MANAGEMENT



A manager cannot maintain financial control of his business without adequate records.

Financial management

Proper records needed

Objectives

Measures of financial return

Five suggested measures

Appraisal

Preservation of assets

Working capital

Fixed capital

Appraisal

Financial controls

Accounting statements

Statement of application and source

Budgets

Appraisal

Adequate financing

Permanent financing

Temporary financing

Appraisal

FINANCIAL MANAGEMENT

Financial management is of special interest to all managers as it involves preserving assets and making an adequate return on plant investment.

In business enterprises, other than cooperatives, total gross receipts, less all expenses, are termed net profit or net income and are a return on investment to the owner or stockholders. In a cooperative, these receipts, less expenses, are called net savings or margins since they are not profits to the association. After paying a limited dividend to any stockholders, the cooperative distributes these net savings or margins to its members in proportion to the volume of business each did during the particular period.

Our study included both cooperatives and single proprietorships and, in general, this discussion applies to both. Because the majority of the businesses studied were single proprietorships, we have used their customary accounting terminology. We realize, however, that some of the terms, such as "profits" and "net income," are not applicable to cooperatives.

Proper Records Needed

Successful financial management requires proper records. As pointed out later, managers of several of the plants studied were handicapped by inadequate records.

A manager needs records which give him full and ready information on the various aspects of the firm's financial condition. As a minimum, records should furnish answers to these questions:

1. Cash. How much cash was received and from whom? How much was spent and for what? How much cash is on hand and in the bank?
2. Accounts Receivable. To whom has credit been granted? How much? What payments have been received and for which account? Which accounts are delinquent? What are the due dates for payments of locker rentals?
3. Inventory. This should be kept by units and dollars for each item. What has been added? What has been removed? How much is in stock?
4. Fixed Assets. Information is needed for each item. How much did it cost? When was it purchased? What is the rate of



depreciation? How much depreciation has been charged as an expense? What is its net book value?

5. Accounts Payable. To whom are payments due and when? What are the terms on each account? Have available cash discounts been taken? Are any accounts delinquent?

6. Capital or Investment. What initial investment, and in what form, was made by the owner(s)? What additions to capital have been made -- by whom, when, and for what purposes? Have profits been retained as additions to capital, or withdrawn? How much is invested in the business now?

7. Income. Data on income should be grouped by major sources such as sale of beef, sale of pork, processing, and slaughtering. What income has been earned? What income has been received? Have any returns or allowances been made which reduce the gross income?

8. Expenses. These should be kept in detailed expense groups such as wages and salaries, heat, light, power, and telephone. What expenses have been incurred by the locker plant? What expenses have been paid?

9. Purchases. What has been bought and from whom? Which items are fixed assets and which go into inventory to be charged out as the cost of goods sold?

Records are also necessary to enable locker plants to comply with all tax laws and to receive all available tax benefits. As these laws are complex and subject to frequent revision, managers should seek expert counsel in dealing with tax problems. However, the most expert consultant cannot do a thorough job without complete records.

Objectives

A manager generally has five objectives in financial management. These

are: (1) to learn if the business is making an adequate rate of return; (2) to preserve the assets of the business during its operation; (3) to develop financial controls of the firm's assets, liabilities, expenses, and profits; (4) to have the business adequately financed; and (5) to know and obey all laws, Federal and State, with respect to taxes and other records.

Accomplishment of the first and third objectives requires certain financial measures. Usually, a manager wishes to compare the financial measures for his business with those of other locker plants or with the industry. Or he may wish to compare his operations for this year with those of past years. In either case, it is important that he define the terms used to be sure the items are truly comparable. By use of these comparisons he can get a better idea of how well his business is doing.

Measures of Financial Return

Computing financial measures of return involves, first, defining return. In general terms, return is that income left after all operating expenses incurred during a given time have been subtracted from the income earned in the same period. Usually, this is called net income.

The income earned figure includes sales of goods and services customarily sold by the plant both for cash and on account.¹ Operating expenses include those incurred and paid, accrued expenses such as salaries earned but not yet paid, and non-cash expenses such as depreciation. Return computed on this basis

¹There is a real question as to whether the income earned figure should include income received from the sale of unusual items, such as unused lockers to another plant. The answer to this question is somewhat immaterial if the manager is aware of its influence on the income earned figure.

represents what the owner receives solely because he put his money into the business. For a single proprietorship this return should be determined before income taxes are computed.

In both cooperative and other firms, the salaries of employed managers are included as expenses. In locker plants where the owner is also the manager, a major question in computing expenses is whether he should charge the business for his salary. Admittedly, whether he receives income from the business as a salary or as net income makes no difference to him, or to the government in taxing him as a single proprietorship.

However, if he did not manage the business, he would pay someone else to do so. Thus, if the return from his business is to be stated accurately, it is important that he charge a salary for his efforts as a manager. Failure to do this overstates the net income left as a return to the locker plant. An estimate of a fair salary could be derived by determining what it would cost to employ a manager, what the owner could earn in another job, or what managers of other businesses of similar size and complexity are earning.

A manager (and owner) is also interested in the rate of return. To determine this, he computes the net income as a percentage of those parts of his business which contribute to it. The bases generally used are net sales, net worth, and total assets.

Five Suggested Measures

Five measures of financial return are suggested. Many others are possible, but these are the ones most commonly used. They also provide a good insight as to how well the business is doing. These measures are: return as a percent of investment, return as a percent of total assets, net income as a percent of sales, the number of times the investment is turned over as sales, and the contribution to overhead.

The first two are direct measures of the rate of return earned by a business. Although the three others do not measure directly the rate of return earned, they do provide bases by which to judge in financial terms how well the business is doing.

Each measure will be described in detail as to its computation, and evaluated as to its meaning to management.

Return on Investment. - The first measure, return as a percent of investment, is calculated by dividing net income by investment. This measure is used a great deal by large companies in other fields of business. An owner who uses this measure is saying very bluntly that he invested in this business to make money and he wants to know how well he is doing.

Although no definite rate can be given as adequate, the experience of other businesses in the food industry might indicate the level of return that locker plants should expect (table 1). It should be pointed out, however, that the average rates of return

Objectives:

1. adequate rate of return.
2. preserve assets
3. financial control
4. adequate financing
5. know tax laws.

CHARGE A SALARY FOR MANAGEMENT



Table 1. - *Net profits (less provision for taxes on income) as percentage of stockholders equity, leading food companies, 1950-56*¹

Companies		High	Low	Average
Type	Number			
Percent				
Meat packers	11	7.0	2.7	5.3
Wholesale food distributors	5	10.0	5.4	7.5
Retail food chains	8	13.8	9.8	11.3

¹Based on data in Farm Retail Spread for Food Products, U. S. Dept. of Agric., Agr. Mark. Serv., Misc. Pub. 741, Nov. 1957.

given in the table are much lower than those experienced in other industries. Thus, a locker plant operator should not be too satisfied if his rate of return approximates those presented.

Acceptance of a return approximating the average shown in the table is setting a strictly financial judgment on the desirability of a business. Also, our definition of return ignores any intangible return the owner may receive, such as the pleasure of being his own boss, the prestige of being the owner of the business, and the enjoyment of being the leader of a group of employees.

These intangible returns are important to a manager. He should recognize, however, that if his investment is not earning at a satisfactory level, he is receiving little, if anything, for the risk he assumed by investing in the locker plant.

Return as a Percent of Total Assets. - Another measure of the rate of return is the return as a percent of total assets. The assets represent the dollars committed to this business by the owner, and by others in the form of accounts payable or long-term notes or mortgages. Naturally, the rate of return on these assets should exceed the rate of interest paid the lender of any borrowed money.

If the rate of return exceeds the rate of interest paid on borrowed funds, the owner of the business is trading on his equity. This is a term used to describe the situation where borrowed money earns more than its interest charge. These extra earnings become extra income to the equity owner -- the proprietor of the locker plant. If the opposite is true, the locker plant manager should try to refinance his loan or consider paying it off as quickly as possible.

Many large companies determine the return per dollar of assets with the following formula:

$$\frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Asset}} = \text{Return per dollar of assets}$$

Computation of the return per dollar of assets in this manner is meaningful because it puts the finger on the broad underlying factors which cause the results to be what they are. This identification of broad factors leading to a particular result helps the manager locate possible trouble spots. The return per dollar of assets responds to movement in these two factors -- net income to sales and sales to total assets. If there has been no change in selling

price an improvement in net income per dollar of sales indicates that cost in proportion to the sales dollar is reduced. Again, if there has been no change in selling price, an improvement in sales per dollar of assets indicates that capital is being worked harder.

Net Income as a Percent of Sales. - Net income as a percent of sales is the only financial measure most managers of the locker plants studied were using. This measure is computed by dividing net income by sales. Each one computed net income differently because of the expenses charged or not charged to the business. For example, the magnitude of this measure is affected greatly by whether or not the business is charged a salary for the owner as a manager.

This measure tells how much of every sales dollar the owners of the business are keeping for themselves either in the form of money retained in the business or withdrawals. It does not, however, indicate whether the labor and capital assets of the business are earning a good return.

Turnover of Investment. - Investment, also called net worth or owner's equity, is the amount of money in the form of either cash or tangible assets put into the business or left in the business by the owners.² Investment turnover is net sales divided by investment. It measures how actively the investment is working in getting sales.

It should be noted that this measure is different from the second one discussed. In it we based our measure of financial return on total assets which represented application of funds provided by others in the form of accounts payable or long-term notes or mortgages as well as the owner's investment.

A low rate of investment turnover indicates two dangers. One is that the amount of investment is too large for the sales being obtained. This means an underutilization of the investment. Another danger is that the dollars are invested in the wrong types of assets. For example, one plant studied has slaughtering facilities far in excess of the market potential for slaughtering in that area. Its investment turnover will thus be low.

Contribution to Overhead Expense. - Contribution is the number of dollars remaining after the direct cost of the sales made has been deducted from the sales receipts dollars. These dollars are used to pay fixed operating expenses and provide a net income. For example, a locker plant which sells packer beef has the cost of these beeves as a cost of sales. In other cases, not only direct materials, such as paper for processing, but also the wages of a person engaged only in processing can be charged to the source of income.

²For a going concern the value of any fixed asset represented in the investment is the value remaining after depreciation has been charged.



*Net Sales - Direct Costs =
Contribution to Overhead*

When only direct materials can be charged to the income source, the contribution is the same as what is commonly called the "margin received" on the sale of goods or service. Margin is measured by dollars or as a percent of sales. The latter is the more common way, but it ignores the fact that expenses are paid for in dollars, not percents. Thus, total dollars available is more indicative of a successful business than a large percentage.

Computing the contribution the total business receives from each of its several activities, such as sale of meat, processing, rendering, and slaughtering, is helpful. The value of this approach is that a manager obtains some idea of how many dollars an activity is contributing toward the general expenses of the business. Yet he does not have to allocate fixed expenses of depreciation, or his salary, to each of the income-producing activities.

Appraisal

Before analyzing the operations of the eight firms studied as to their respective measures of financial return, certain general comments are needed. Except for the cooperative locker plants, which had their statements prepared by an accounting service, the plants had somewhat inadequate financial records.

Two plants had only the records filed in an income tax form, and two reported other operations with those of the locker plant. In these cases it was impossible to obtain an accurate picture of the locker plant operation.

Table 2 shows the computed measures of financial return for seven plants. The records of one plant were so inadequate that no financial analysis was possible. For plants A, C, E, and G, the reported net income was reduced by inclusion of a salary for the owner-

Table 2. - Measures of financial return, seven selected frozen food locker plants, 1955

Net sales and measures of return	Plants						
	A	B	C	D	E	F	G
Net sales (\$000) ¹	342	166	32	129	72	148	94
Measures of return							
Return on investment (loss) percent	(2.3)	7.5	7.8	— ⁽²⁾	19.2	7.1	— ⁽³⁾
Return per dollar of assets (loss) percent	(1.2)	6.2	5.2	(9.2)	9.7	4.1	— ⁽³⁾
Net income (loss) as percent of sales	(.4)	3.6	11.4	(2.6)	4.0	3.6	14.1
Turnover of investment (times per year)	6.0	2.1	.7	— ⁽²⁾	4.8	2.0	— ⁽³⁾

¹For breakdown of sales volume as to percent of business done in merchandising, processing, and locker rentals -- see description of individual plants in Appendix.

²Reports a negative investment as liabilities exceeded assets.

³Inadequate records.

manager. All the other plants had reported net income after a definite charge for manager's salary.

The return on investment for three of the plants is slightly above 7 percent. This is about the average return reported in table 1 for the five wholesale food distributors.

The high return to plant E reflects a very fortunate purchase of plant and equipment at a low price. This is financed by a mortgage. Thus, the owner has kept his investment low and is trading on the equity. This is another reason why plant E had a very favorable turnover of investment as reported later in this appraisal.

Reliance on Debt. - Comparison of the return on investment to return per dollar of assets indicates the extent to which a firm relies on debt -- short-term (including accounts payable) and long-term to finance its assets.

Plant E relies heavily on debt financing as does plant F. If plant F is paying more than 4 percent on its borrowings it should seek more capital and reduce the debt because the borrowings are not earning their interest charges. Clearly, from the figures available to us, plants D and A should not borrow any money and have a serious problem in that earnings are too low.

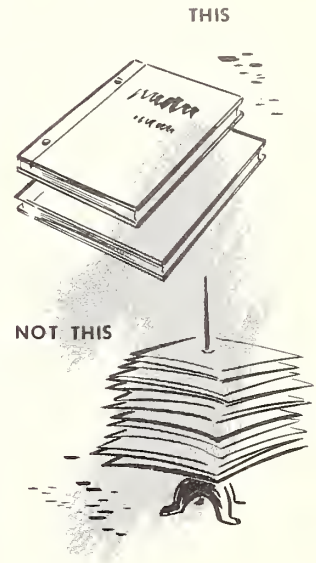
Analysis of Net Income. - Except for plants A and D, the percent of net income appears satisfactory. Plant A does a large frozen food wholesale business to small retail grocery stores which accounts for approximately 64 percent of its total sales income. This part of its business has not been profitable as sufficient sales volume has not been obtained to utilize fully the resources, particularly labor, which have been committed to it. The locker plant by itself had a net income as a percent of sales of 7.5 percent.

Analysis of plant D is difficult as other operations, a retail store and a wholesale frozen food business among others, are reported with those of the locker plant. It is the opinion of the authors that if operations of the locker plant were reported separately, they would show a net income.

The experience of these two plants should not discourage locker plant managers from seeking additional business, as advocated and discussed in the next chapter on Sales Management. There is an excellent chance that the new business will be successful.

Plants C and G reported the highest net income as a percent of sales. The team considered these plants the best managed of the eight studied, although plant G needs better financial records. Part of the explanation for their success is that the plants are well designed so that space is efficiently used, and processing is nearly a straight-line operation. The personnel in these plants, as compared with the others, also are more familiar with their

FINANCIAL RECORDS



work assignments and what is expected of them. Supervision is of better quality. Thus, this excellent position reflects competent management.

Industry Standards Needed. - The financial measure of net income as a percent of sales would be more meaningful if some industry standards could be developed. Possibly several industry standards are needed with the plants classified by the percent of business from locker rentals, total sales volume, or other basis.

The turnover of the investment appears low for all plants but A and E. Turnover of investment tends to be higher when a large percent of sales volume is from merchandise sales, as is the case with plants A and E. Plant F with its over-investment in slaughter facilities is an exception to this relationship. The comparatively large investment in fixed assets needed to support the sales tends to keep the turnover figure low. Again, some industry standard figures would be helpful.

Preservation of Assets

Management is faced with two tasks as it seeks to preserve assets. One is to keep track of the assets so they are not lost or stolen. The other is to keep the assets earning income for the business and not lying idle. The accomplishment of these tasks depends on good records. It also varies by type of asset, each of which belongs in one of two major groups -- working capital and fixed capital.

Failure to preserve the assets robs the business in two ways. First, the business loses resources needed for efficient operation and to produce earnings. Second, the continuity of the business is seriously endangered. This also means original value cannot be

obtained if the business is sold or is passed on as part of an estate.

Working Capital

Working capital consists of cash, accounts receivable, inventories, and any investments such as government bonds which can be converted into cash readily.

Cash. - Cash is the asset which needs the most attention of locker plant managers. To keep track of cash, all receipts should be handled in a prescribed manner, preferably by use of a cash register, and by one or two persons, not everyone in the business. Payments, except for minor items handled through a petty cash account, should be made by check. This provides a record of all payments made, prevents loss of cash in the mails, and removes the danger of mistakes in counting. A cash balance should be run every day as good records are the only means to establish when cash is disappearing by theft.

Many locker plant managers have excess cash, that is, more cash than needed for normal operations. Excess cash accumulates at certain times of the year because of the seasonal nature of this business. In the winter when volume of business is very high, the demand for cash does not increase as rapidly as its supply. In the summer the opposite is true as salaries, refrigeration, and other expenses requiring cash continue at nearly the same level as in the winter.

This situation will exist as long as locker plants operate on a cash basis and the present seasonal pattern continues. If locker plants should shift to selling the majority of their products on credit, the picture could reverse from one of excess cash in the winter months and shortage in the summer to one of shortage in the winter and excess in the summer.

Excess cash can also occur in this business because the large expense of depreciation is a non-cash expense. If the business is showing a net income and is operating essentially on a cash sales basis, then cash income equal to the depreciation charge has been received but not expended.

Regardless of its source, excess cash should be used to expand credit, purchase inventory, purchase new fixed assets, make capital improvements, retire debt, or should be invested. Such use of excess cash keeps the value of the assets in the business.

If, however, his increased cash position should lead the owner to withdraw additional monies to raise his own standard of living or to go into another business, the value and assets of the locker plant would be disappearing. Continuing this process would mean that eventually the only value of the plant would be current assets and whatever small amount could be received from the sale of fixed assets. Operation of the locker plant beyond this point would require that additional sums of money be invested in the business. In fact, it would be equivalent to creating a new business.

Accounts Receivable. - Accounts receivable reflect the amount and success of a firm's credit business. If these are to represent true assets to the locker plant, the basis of granting credit must be fair and selective. Only those who are good risks should receive credit.

If a locker plant decides to emphasize quantity sales of meat and frozen foods, credit probably will become more essential in developing adequate sales volume. Even though good policies are followed in determining to whom credit is granted, some weak accounts inevitably will slip through. In fact, if no weak accounts appear, the manager probably is being too strict in granting credit and is missing valuable sales.

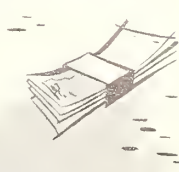
To prevent a dissipation of assets by accounts receivable, the original granting of credit should be carefully controlled and an organized collection campaign followed. Collection is facilitated by requiring the purchaser to make a substantial downpayment.

Whenever an account receivable is judged uncollectible, it should be taken off the books. This is necessary so that the records may at all times reflect an accurate picture of the real value of the business. The uncollectible account is charged off either to current income or to a reserve account.³

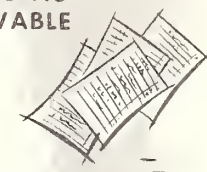
Credit costs become exorbitant unless adequate procedures are followed in granting the credit and collecting accounts. In addition to billing and special collection costs, which most

WORKING CAPITAL

CASH



ACCOUNTS RECEIVABLE



INVENTORY



INVESTMENTS



³The use of a reserve account is a better procedure as it permits a more accurate determination of profits in an accounting period. Accounts which are granted credit in one accounting period generally do not prove uncollectible until a later period. To use a reserve account, a certain charge (usually 1 percent of the value of the outstanding accounts receivable) is made as an operating expense with the offsetting entry to the reserve account, Reserve for Bad Debts. Whenever an account receivable is judged uncollectible, it is taken off the books and the Reserve for Bad Debts account reduced by its amount.

operators recognize, there is the cost of letting someone else use your money. Its cost can conservatively be figured at the interest paid for any temporary funds the business must borrow, or, if no borrowings are necessary, at the rate obtainable from investment in government bonds.

Two ways to test the quality of accounts receivable are: (1) to age them, as shown in the accompanying tabulation, and (2) to compute the number of days of credit sales outstanding. If the average number of days of uncollected credit sales, or the age of the majority of the accounts, is less than the credit terms given, the accounts receivable are judged to be in good shape.

In aging accounts, simply list them according to the length of time they have been outstanding. An illustrative example follows:

<u>Time outstanding</u>	<u>Number of accounts</u>	<u>Total dollar value</u>
Less than 1 month	26	\$260
1 to 3 months	15	225
3 to 6 months	17	325
6 months and over	7	95
Total	65	\$905

In the second test, the total value of the outstanding accounts is divided by credit sales for the year. The result is multiplied by 360 to give the number of days of credit sales outstanding. Outstanding accounts in the example totaled \$905. If we assume credit sales of \$3,660 for the year, we find an average of 89 days of credit sales outstanding, as shown in the following computation:

$$\frac{905}{3,660} = 24.7\% \text{ of the year's credit sales are uncollected.}$$

$$.247 \times 360 = 89 \text{ days of credit sales outstanding.}$$

If a locker plant wishes to handle small charges such as those for processing meat or fruit on a cash basis, the customer should be told the total charge for the service when she is informed that her product is ready or has been put into her locker. Such a notification procedure coupled with polite suggestions that the plant expects payment on the customer's next visit will result in most of these being paid promptly. This brings in immediate cash to the business and eliminates sending bills. Also, the customer may be more in the mood to pay at the time she receives service than she will be a month later.

Inventory. - Much, if not most, of the inventory for which a locker plant manager has responsibility is actually owned by others. Primarily, these are products in the lockers, hams and bacons being cured, and animals custom slaughtered. The records necessary to keep account of this stock on hand and the changes in it are discussed in the section on office records beginning on page

For the inventory on hand for resale, a manager needs to know what is there or, if removed, by and for whom. One or two persons should control any movement of inventory, including additions and removals. When the plant is unoccupied the inventory should be kept under lock.

A pressing problem is to make certain the inventory costs are kept at a minimum, and that money invested in inventory earns as much for the business as possible. Consideration should be given to the financial cost of a large investment in inventory, the risk of a price change or physical deterioration of the stock, and the use of space for storage that might be more profitably used for other purposes.

Turning the inventory quickly keeps these costs at a minimum. To measure turnover, the cost of goods sold is divided

by the average cost value of the inventory on hand during that same period. Fluctuations in the size of inventory also affect the cash needs of the business.

The computation of inventory turnover can be illustrated as follows, by use of approximate figures from a plant in our study.

Inventory on hand, January 1, 1955	\$1,850
Inventory on hand, December 31, 1955	3,150
Cost of goods sold during the year, 1955	44,600

The average inventory for the year was \$2,500. Therefore, the rate of turnover was 17.9 times a year, or about once every 20 days.

$$\frac{44,600}{2,500} = 17.9 \text{ times per year.}$$

This method for computation of inventory turnover assumes that the level of inventory remains about the same throughout the year. This assumption is questionable for locker plants as the amount of inventory on hand in the winter and in the summer varies considerably. Therefore, it would be more meaningful to compute one rate of inventory turnover for the period of large inventories, winter, and another for the summer. We used the average inventory for the year in the example as separate figures for the periods of high and low inventories were not available.

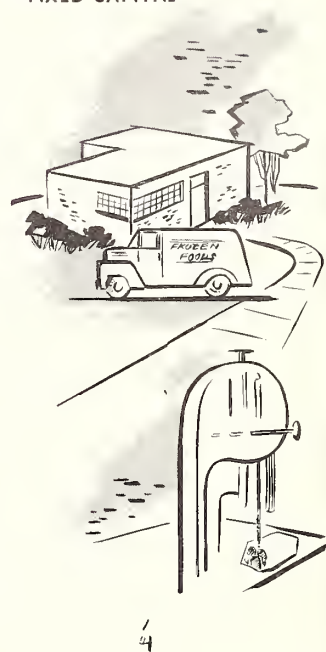
A business customarily seeks as high an inventory turnover as possible consistent with maintaining adequate stocks for sale. At times, a manager is tempted to buy in excess of needs because he thinks a price rise is imminent. If he is right, the return from this excess inventory will be substantial. He must, however, recognize that larger inventory quantities mean added costs and speculative risk. Speculative buying as a standard operating procedure is highly questionable.

Fixed Capital

Fixed capital includes investment in the fixed assets of land, locker plant, and such equipment as saws, baskets for processing, knives, and refrigeration, which have a useful life longer than one year.

Capitalization of Assets. - Two problems arise in the preservation of fixed assets in a financial sense. First, the records of the business must reflect their value at all times. To have their value properly recorded they should be capitalized.

FIXED CAPITAL



Capitalization means that the expenditure for equipment is set up on the books as an asset rather than charged to an expense account. This original expenditure is charged to the business each year as an expense by means of a depreciation charge as the assets are used up or their value declines with the passage of time.

Capitalization of fixed assets and use of depreciation charges are preferable to accounting on a cash basis. The business can charge its expenses to the proper time period and thus accurately determine its financial success. Not only the original expenditures for an asset should be capitalized, but also any expenditures for improvements beyond ordinary maintenance which increase its value to the business or the length of its operating life. As noted in the earlier discussion of cash, these depreciation charges are a non-cash expense and thus may create a problem of excess cash for the plant.

Adequate Insurance. - Second, with fixed assets adequate insurance is needed. Numerous plans and types of insurance are available. Minimum insurance appears to be that for fire, windstorm, and extended coverage.

Some small operators carry no insurance for certain types of risks. This means that the business probably will go under should a catastrophe against which they are not insured occur. On the other hand, substantial savings are made in insurance premiums if that catastrophe does not occur. Many other plants have partial rather than complete coverage. Each manager must decide how much insurance to carry in terms of his own business.

Appraisal

All the locker plants studied took reasonable precautions in the receipt

and expenditure of cash. In three plants one person usually handled all cash receipts and disbursements. This person also did other work but always in full view of the office. In the other plants, several persons, sometimes everyone but the part-time help, could receive and disburse cash.

A plant with few employees can not easily arrange to have just one person handling all cash, but more control as to who can seem desirable. The problem of excess cash is appraised in the next section.

Credit Activities. - The locker plants studied did not do much credit business. The accounts receivable were not great. Only two managers made use of the local credit bureau in their credit appraisal. The others relied on their own judgment and knowledge of the applicant. In many cases this was satisfactory. On the other hand, information often was lacking concerning the person's other credit obligations and payment history.

Except for the cooperative plants, the accounts receivable were evaluated only by observation. This may work for a small number of accounts receivable, but more analysis appears desirable and is a "must" if the plants should expand their sales on credit.

Buying Practices. - Inventories of meat and fruits were controlled in that most managers bought for specific orders or an amount normally sold in a short time. At times a manager purchased ahead when a "good buy" appeared. This allowed him to run a special to attract new business and to sell more to present customers. Often the margin received was slightly larger than normal.

Such operations, occasionally and moderately done, can improve the market position of the locker plant as well as give it more margin. There is,

however, considerable danger if this is done too frequently. The locker plant should rely on normal rather than speculative operations to provide its income. Only one plant had a large inventory of non-meat products on which a substantial loss appeared imminent.

Depreciation Charges. - All but one firm had capitalized their fixed assets and were recovering their original costs through annual depreciation charges to current income. All plants reported charges for insurance, but the team did not check in detail the coverage on the fixed assets.

The managers were not concerned with whether they were recovering adequate funds for replacement of the assets through depreciation charges. Rather they seemed to feel that funds would be available or could be borrowed when they were needed.

Financial Controls

Proper financial controls based on analyses of financial records aid greatly in preserving assets.

A locker plant may maintain financial control of its business by one or more of three devices: accounting statements -- balance sheet and income statement; statement of application and sources of funds; and budgets.

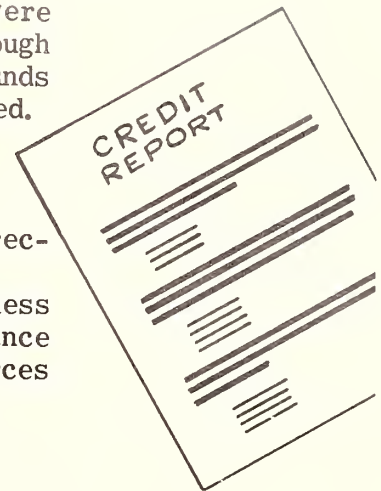
Accounting Statements

Every business should prepare a balance sheet and an income statement at least once a year and preferably much more frequently. These two statements give an excellent picture of the financial condition of the business. The balance sheet gives the values of assets, the liabilities owed, and the owners' financial interest in the business as of a given date. The income statement reports the total income received, the total cost (cost of merchandise sold and operating expenses) and the net return to the business for a stated period.

Before any analysis of these statements is made preparatory to establishing financial controls, it is essential that every item properly belonging in either statement be included and shown at its correct value. Two of the more troublesome items are the valuation of the inventory and the owner's salary as a manager. The necessity of charging a salary and suggestions of bases for determining it were discussed in the preceding section.

The value of the inventory depends on how much is on hand and the cost of the items. Inventory on hand at the end of each accounting period may be determined by physical count or by book records. A physical count, however, should be made at least once a year.

The inventory record may be kept in dollars or quantities. For control purposes, it probably makes more sense to know how



Inventory
J. I. J. O.
vs
L. I. J. O.

many sides of beef are in the cooler rather than how many dollars worth, but for financial statements, the inventory must be expressed in dollars.

Generally, inventories are priced at cost or market whichever is lower at the time the statements are prepared. Numerous types of inventory costing are possible, such as first in-first out, last in-first out, and an average price. Because of its simplicity the use of first in-first out seems best for locker plants.

Financial statements do not provide control. Rather they indicate where control is needed and may even suggest what control or corrective action is needed. These indications may be obtained from two types of analyses -- comparative and ratio.

Comparative Analysis. - In a comparative analysis, statements for one year are compared with those for previous years, or with those of a similar firm. In making comparisons, all items and terms must be defined in the same manner as discussed in the introductory remarks to this section.

Most comparative analysis is done with income statements. To make two or more statements comparable, each income and expense item is expressed as a percent of net sales. The owner can see a material change from one year to the next or a pattern of change over several years in any one classification.

For balance sheets, the several ratios discussed in the next section are usually compared. If a manager wishes to compare the actual balance sheets, he would have to express all items as a percent of a common base, probably total assets.

Ratio Analysis. - Each financial ratio is designed to highlight some particular phase of the financial condition

of a business. The purpose of a given ratio is often clear when one sees how to compute it. For many of the ratios, acceptable minimums or maximums or "normal" values have been developed from experience.

The ratios⁴ listed in table 3 are the more common ones used. Normal values are given for each ratio for manufacturing concerns and for merchandising firms. Both are given because a locker plant is like a manufacturing firm with its investment in fixed assets and performance of activities as processing and curing; and is like a merchandising firm in that it sells goods and services direct to individual consumers.

The value of each ratio for a locker plant probably should be between the two "normals" given. A manager can tell from the nature of the activity measured whether the value should tend towards the "normal" for a manufacturing or for a merchandising firm. The given values for the first two ratios are minimum; for the others the values are normals.

Statement of Application and Source

A business can be viewed in many ways. One is to consider it as a medium through which funds pass. Most of the funds go to pay normal operating expenses.

A statement of application of funds reports the use of the excess (or deficiency) of funds after operating expenses are paid, and the use of the funds which arise from unusual activities outside normal operations. It tells where the financial structure has expanded or contracted in the past year and whether these changes are producing a more solid financial structure. In one sense,

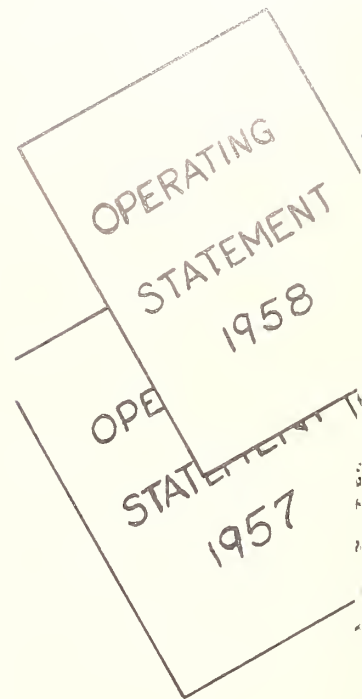
⁴ These have been provided by Paul M. Van Arsdell, College of Commerce and Business Administration, University of Illinois.

Table 3. - *Financial ratios and normal values for manufacturing concerns and merchandising firms*

Ratios	Normal values	
	Manufacturing	Merchandising
	Percent	
Current assets to current liabilities	300	300
Cash plus receivables to current liabilities	130	130
Operating expenses ¹ to net sales	80- 90	94- 98
Net sales to total capital (assets)	80-120	200-600
Net income ² to total assets	7- 10	6- 8
Return to owner to owner's investment	8- 12	7- 10
Owner's investment to total assets	70	60
Fixed assets to total assets	35	10- 20
Inventory to total assets	32	50- 60
Receivables to total assets	20	20- 25
Cash to total assets	8	8
Net income ² to net sales	8- 12	1- 5

¹Includes cost of goods sold, direct material and labor charges, as well as customary operating expenses such as rent, light, heat, power, and others.

²Before any financial charges of interest on any borrowings and payment of preferred dividends.



this particular statement is a means by which balance sheets for succeeding years can be compared.

Sources of funds for a business include net operating income, sales of any fixed assets such as equipment or land, a trade-in of one asset for another, depreciation charges for the year, and investment of more capital in the business by the owner directly or by borrowing. The use of these funds generally will be for additions to the fixed assets, payment of any long-term debt obligations or even buying out a partner, or increasing the working capital.

Any increase in the working capital can be measured by its individual items -- cash, accounts receivable, and inventories. If the owner has not paid himself a salary before reporting the net income figure then he should report any withdrawals for himself as an application of funds.

A sample statement of application and sources of funds has been constructed from data for one of the plants studied. (Table 4.)

Budgets

A budget is a detailed schedule which states in financial terms what the organization plans to do and what resources it will need to commit to attain these goals.



Table 4. - *Sample statement of application of funds, one locker plant, for year ended December 31, 1955*

Funds provided		Funds applied	
By net income for the year	\$7,000	Increase in deferred charges	\$700
By provision for depreciation	8,700	Increase in investments	25
		Decrease in deferred income	525
		Cost of fixed assets acquired and improved	4,750
		Dividends on preferred stock	3,600
		Increase in working capital	6,100
Total funds provided		Total funds applied	
	\$15,700		\$15,700

The main budget for each locker plant is an operating budget. This is a forecast of gross income, expenses, and net income for a given period of time. In other words, it is the income statement for next year. From this basic budget, supplementary budgets for cash, labor needs, production, working capital, fixed assets, and sales may be developed. Because of the seasonality of the locker business, most plant managers probably can use supplementary budgets for cash, sales, and labor.

Functions of a Budget. - A budget serves two functions in every organization -- planning and control. Its planning function is to help both management and workers formulate goals for the organization. This planning must be thorough and effective, or the resulting budget will be of little value as a control device. In doing this planning, the management should keep the workers informed at every stage, and if possible ask them to participate. Workers will strive harder to meet the budget if they have had a part in it.

In budgeting, the locker manager, like any small businessman, faces the difficult decision of how much of his management should be based on records and how much on the "seat of the pants."

Because of their size and complexity, large organizations must keep many records so that top management knows what is going on and can plan for the future. A locker manager does not have all these records. He knows everyone in his plant, knows what they are doing nearly every minute, and has some idea what is to be done during the next week or even the next year. This intimate knowledge may make him feel he does not need to give any serious thought to using budgets, especially to committing them to writing. Nevertheless, small businesses need budgets just as much as large businesses.

Setting up an Operating Budget. - Two steps are recommended in setting up an operating budget, with worker participation suggested at each step. One step is to forecast sales; the other, expenditures. The difference between these two figures is the estimated net income for the year.

The first step, a forecast of income or sales activity, is the basic figure for the operating budget. Total dollar sales must be forecast and also the amount of money expected from each of such sources as slaughtering, processing, and locker rentals. These estimates will probably be more realistic if the income

figures are based on a forecast of physical quantities; pounds of beef or pork, number of lockers, and number of hams, all extended at their respective unit selling or rental prices.

The second step in preparing an operating budget is a forecast of expenditures which will occur at the level of activity forecast in step one. This is facilitated by dividing expenses into two groups: those that vary with the level of activity and those that do not.

Most locker managers seem to feel that all their expenses are fixed -- that is, do not vary with the level of activity. This is probably due to their inclination to use past experience as their sole guide for estimating future expenses. Frequently, past experience is not a reliable guide. In fact, too much dependence upon it may cause a business to continue in slovenly ways while overlooking opportunities to reduce costs.

Performance standards are helpful in arriving at a rational judgment of the validity of a given expense. Once expenses have been forecast for the predicted level of activity, a manager should consider what would happen to these expenses if the expected sales volume was 10 percent higher or lower than estimated. A simple method such as this will help him identify more readily the expenses which vary with activity.

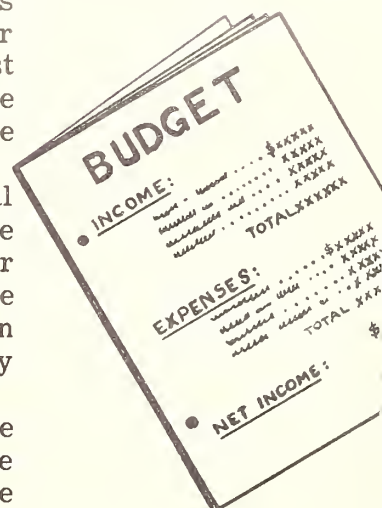
An important part of this second step is to determine if the production resources -- physical plant and labor -- are adequate to achieve forecasted sales. Both sales and production must be planned in light of the financial consequences.

If processing volume is expected to double next year because a new market such as provisioning home freezers is being developed, what production resources will be needed? What additions will be necessary if the present facilities are inadequate? What about increases in fixed and working capital to meet this expansion? These questions cannot be decided intelligently without careful planning throughout the development of the budget.

A budget is usually developed for a year. For control purposes, a manager needs a variable budget reflecting the items in his operating budget which change with the level of activity; for example, the expense for processing supplies.

A variable budget is not easy to develop or administer. Because budget estimates increase in reliability as the time period covered comes nearer, quarterly or even monthly budgets are helpful. As a new quarter approaches, its budget can be re-examined and adjusted to meet changing conditions, but it should not be changed just because the budget for the current quarter is not being met. Changes should be made only for valid reasons, such as a change in the level of activity, and not just because the going was tough. A manager who is willing to change his budget whenever he fails to meet it ruins its effectiveness as a control.

Set up a budget..



... and stick to it

Uses of a Budget. - The use of the budget as a control device is one of its strong recommendations. If the level of activity is higher or lower than budgeted, then the variable expense items must be adjusted to the new level of activity before comparing budget estimates and actuals. This comparison highlights income or expense items which are out of line.

A manager who uses a budget in this manner can follow the "exception principle" and concentrate on items which are out of line. Once these are discovered, he can take remedial action. Also, by accumulating both budget and actual figures from the start of the budget period to date, he can maintain continuous control.

A budget also provides guidance for operating decisions during the time period it covers. A cash budget for example shows if sufficient cash is available to pay all bills as they come due and to meet seasonal requirements. Such a budget is particularly desirable if purchases are made on terms allowing cash discount for prompt payment.

If conventional terms of 2/10, n/30 (2 percent discount if paid within 10 days from invoice date and net amount of invoice due within 30 days) are available, payment within the 10-day period means each dollar earns at an annual rate of 36 percent. Each dollar earns 2 cents for being paid 20 days early or, figured on the basis of 360 days (18 20-day periods), at an annual rate of 36 percent. Temporary borrowing may be justified to take advantage of cash discounts.

If the budget indicates excess cash, the manager must decide what to do with it. He may keep it as cash which means it is earning no income, keep it on hand to meet an impending large expenditure, use it to expand the business, or withdraw it for personal use. The latter course decreases the value of the

business if the withdrawal exceeds the profits earned.

It is prudent business management to keep a reserve of cash for unanticipated expenditures or to meet seasonal fluctuations. However, this cash does not need to lie idle. It can be invested to produce some earnings while still having the advantage of being immediately convertible into cash.

Government bonds, treasury notes, savings and loan association deposits, bank savings, or savings in credit unions are some possibilities for the investment of excess cash. Which one a manager selects depends on his estimate of the amount of cash needed in the immediate future and the rate of interest being paid. Any one is preferable to letting the cash lie idle. If there seems to be little immediate need for excess cash, it can be put into a more permanent type of investment.

Appraisal

Two plants did not have balance sheets, and crude income statements had to be constructed from their income tax reports. Not very many financial controls can be developed for plants with such inadequate financial statements. The manager of one plant knew the condition of his business reasonably well, but it was not written down.

Two managers had businesses other than the locker plants and did not keep separate records for the several enterprises. Thus, detailed accurate analysis of the financial condition and success of these individual plants is impossible.

Comparative analysis between this year and previous years was possible for the plants with adequate statements. However, the managers made the comparative analysis only for key items such as sales, expenses, and net income. None of the managers were using

any ratio analysis except for operating expense, margin, and net income as a percent of sales.

For table 5 we have computed selected financial ratios that reveal certain aspects about the locker business and demonstrate what can be done. Our analysis of these ratios uses as a basis for evaluation the "normal" ratios presented in table 3.

Table 5. - Selected financial ratios computed for seven frozen food locker plants

Financial ratios	Plants						
	A	B	C	D	E	F	G
	Percent						
Current assets to current liabilities	60.5	346.4	590.1	37.5	189.9	330.8	(1)
Cash to total assets	7.3	13.1	25.2	(2)	4.6	7.8	(1)
Fixed assets to total assets	69.9	65.0	44.5	80.0	61.3	75.4	(1)
Operating expenses to sales	16.9	42.9	59.6	40.6	28.7	31.4	37.3
Inventory turnover (times per year)	22.3	17.1	10.5	16.1	18.0	12.4	14.3

¹Inadequate records.

²Negative cash position.

The ratio of current assets to current liabilities for plants A, D, and E is too low. From the reported ratios, it is evident current liabilities exceed current assets for plants A and D. This constitutes a very dangerous situation. However, only plant A reported difficulty in having sufficient cash on hand to pay bills.

Excess Cash. - Plants B and C appear to have excess cash relative to the total assets in the business compared with the normal 8 percent. The manager of plant B stated that a generator was wearing out and he did not wish to borrow. The other manager is seeking slaughter facilities.

The authors do not question the wisdom of these managers in keeping extra cash in the business for these anticipated needs, but the extra cash should be put into some investment, such as government bonds or a building and loan association, where it would produce some earnings and yet be immediately convertible into cash.

The weak cash position of plant E reflects its recent entry into a food plan which ties up cash in financing both the freezers and the food.

According to the average ratio of fixed assets to total assets of 35 percent for a manufacturing concern, each locker plant

Investable

cash in:

- ✓ Govt. Bonds
- ✓ Treasury Notes
- ✓ Savings & Loan Deposits
- ✓ Bank savings
- ✓ Credit unions

appears to have too large an investment in fixed assets. We are not able to state definitely what is an acceptable ratio for the locker plant industry. It appears, however, that this industry requires a relatively larger investment in fixed assets than many others.

Each manager was concerned with the problem of additional sales volume and with the underutilization of his plant in the summer months. This suggests the fixed asset investment may be excessive, but the solution appears to be greater use of the plant in the summer rather than a reduction in plant size.

Operating Expense Ratios. - The ratios for operating expenses (not including cost of goods sold as done on page 43) as a percent of sales and inventory turnover are higher than might be expected from a merchandising firm. On the other hand, the expense ratios are consistent with those expected for a business whose main product is the sale of services.

Plant A, with the lowest operating expense ratio, had 64 percent of total sales in merchandise. Plants E and F also had a large portion of total sales in merchandise. If the other locker plants engage in more merchandising, as suggested in the next chapter, their expense ratios may tend towards those for plants A, E, and F.

The high turnover rate reflects purchases for specific orders or on a hand-to-mouth basis. As long as the plants are not losing sales from lack of stocks on hand, maintaining their high rate of inventory turnover is desirable.

Only the cooperative locker plants included statements of the source and application of funds in their financial records. The statements clearly show changes in working capital position. Although these managers had the statements available, none commented on their value.

Budgets Needed. - One manager tried to make use of a budget, but was not successful at it. Two reasons seem to explain his lack of success. In the first place, the budget was recommended by a consultant who failed to instruct the manager fully in its operation. The budget also appeared to be more complicated than desirable for a small business. The second reason was that the individual assigned to administer the budget was not qualified to do so.

Lack of use of a budget as a planning and control device is consistent with the lack of performance standards in other parts of the business. The attitude of the managers seems to be that budgets and performance standards are unnecessary; that there is a certain amount of work to be done and people are expected to work until it is done.

Although we do not advocate complex budgets or performance controls, it appears that the managers could do considerably more in this area.

Adequate Financing

Any business needs to finance its two major classes of assets, working capital and fixed assets. All fixed assets and working capital needed for the minimum level of operations, including a safety margin for minor fluctuations, should be handled by a permanent type of financing. Whenever the business expands, additional permanent financing must be obtained to provide for the higher level of working capital needed.

If the increased volume of business is only seasonal or temporary, some temporary form of financing is satisfactory. The general rule followed here is that the permanency of financing used is directly parallel to the permanency of the need for that financing.

Permanent Financing

Most of the permanent investment should be supplied by the owner, by stockholders, or in the case of a cooperative, by members. This relieves the firm of any large fixed interest obligations which can be burdensome during downturns of business.

It is desirable, however, to borrow money if an expansion of the business promises excellent earnings or is necessary to maintain competitive position, or to obtain an efficient level of operations. Expansion for the first reason may permit the owner to trade on the equity as explained earlier in this chapter.

Temporary Financing

Frequently, a business will need temporary financing of working capital to meet a seasonal or temporary need such as for a large purchase of beef for special sales. There are several sources for this money. Two internal sources are earnings left in the business or the excess cash being accumulated from the depreciation charges. In either case, as pointed out earlier, these monies should not be left as cash in the business but placed in some form of investment readily convertible to cash and still producing some earnings.

At times some borrowing on short-term notes from a bank may be necessary. One source frequently overlooked is the credit extended by suppliers. If suppliers give a cash discount, it is better to pay them in time for the discount and borrow from the bank. As explained earlier, the common cash discount of 2 percent/10 days or net/30 days is equivalent to an annual interest charge of 36 percent, much higher than banks require.

Appraisal

In four of the plants the amount invested by the owner or stockholders is less than the investment in the fixed assets. This is undesirable, as the permanent investment by the owner or owners should cover the permanent capital needs of the plant for both fixed assets and working capital.

The owners in two of these plants are making withdrawals in excess of earnings, actions slowly causing their plants to disappear as a business. In each case the owner is using the locker plant to finance other businesses. While this practice must be criticized as being poor management of the locker plant, it may be the most prudent way to finance the new businesses from the viewpoint of each individual's total business interests.

In the other two cases, the plants had to borrow substantial sums to start in business, and the years of operation have been too few to pay off this large debt. Each is making progress toward a firmer financial basis by financing a higher percent of the business with private capital.

FINANCING



Chapter 4

SALES MANAGEMENT



Sales promotion must be consistent with the the policies and objectives of the business.

Sales management

Market analysis

- Customer analysis

- Market potentials

- Appraisal

Sales forecast

- Factors to consider

- Value of sales forecast

- Appraisal

Sales promotion

- Advertising

- Public Relations

- Publicity

- Promoting new business

- Appraisal

Marketing policies

- Pricing

- Guarantee and adjustment

- Credit

- Product and service

- Appraisal

SALES MANAGEMENT⁵

An integrated sales program has four parts. The first is an analysis of the market now being reached and the potential market which might be reached within the scope and present objectives of the business. Second is a sales forecast for a specified period. This establishes a goal for the organization and provides a basis for production, financial, and personnel planning. The third part is the effort devoted to promoting sales, and the last is the adoption of policies, such as credit and product, which are consistent with and support the sales efforts.

Sales management problems of cooperatives vary in some respects from those of other types of locker plants. Besides providing individual members with storage facilities and processing services for products for their own use, many cooperatives sell surplus products of members to other members. In such transactions, the objective ordinarily is not to buy at the lowest and sell at the highest price. Therefore, some of the sales and other marketing techniques discussed here are less directly applicable to these cooperative operations. However, many cooperative locker plants serve as a general outlet for their members' products; others handle packer meats or act as distributors for commercially packed foods. In these situations, managers meet most of the problems we discuss in this chapter.

In considering any sales program, locker managements must face two related problems. First, as mentioned previously, their sales tend to be seasonal, high in winter and low in summer. This means underutilization of physical facilities and personnel for several months. Second, some of the firms cannot operate their facilities efficiently at any time with their presently attained sales volume. Thus, a real problem for the locker industry is to obtain more business, particularly in the summer.

Market Analysis

Before a manager concerns himself with potential markets being missed, he should know in detail what markets he is reaching. The first step in making this determination is usually customer analysis.

Sales:

- analyze
 - forecast
 - promote
- _____



⁵For this report, the term "sales" includes the sale of goods such as meat, frozen fruit, and freezer supplies, and the sale of services such as slaughtering, processing, and curing.

Customer Analysis

An analysis of present customers or patrons may reveal that certain groups are being missed. In analyses for successive time periods, changes in sales promotion and policies may also be indicated. No one locker plant manager would probably make all of the analyses described here, but he should do some.

One analysis is to group customers by various classifications, such as their place of living -- farm, rural non-farm, and urban. What percent are in each group? What percent of locker patrons are on short-term rent? On long-term? What percent rent lockers and have processing done, rent lockers only, have only processing done, purchase meat and other products but rent no lockers nor have any processing done?

By Volume of Business. - Another analysis is to list customers by the volume of business they do each year with the locker plant. If records permit, this analysis could be further divided by types of business such as locker rentals, processing, and merchandise purchases. Such analysis generally indicates that a few customers furnish a large portion of the business. What can be done to keep these customers? What can be done to get them to give the plant even more business? Is there any way to increase the business from low-volume customers? Do they pay their way?

The answer to the last question requires cost analysis to learn what it costs to serve each customer. For example, for one who receives only processing, it becomes very important to know if the processing price covers the costs, as only then does it pay to serve this customer.

By Area. - The last form of customer analysis suggested is to plot a

map with pins indicating the specific location of each customer. Different colored pins may be used to indicate the customers by kind of business -- locker only, processing only, locker and processing. If the pins are placed near the specific address of each customer and not just in the city or in the country, this technique reveals very quickly any particular segment of the locker plant's trade area which is not being reached.

Once weak or untapped sales areas are located, corrective actions can be taken. Are certain areas being promoted lightly or not at all? Why do these weak spots occur in market coverage? One example of corrective action would be a direct mail campaign to reach consumers living in the weak spots.

Market Potentials

A successful business never reaches its full potential. If it is to grow and flourish, its potential must always be beyond its present achievements.

Each business needs to define its potential in terms of products and services and also business objectives which only the manager himself can define. An analysis revealing clearly what customers are being reached gives much valuable insight into market potentials.

The manager should derive potentials for each part of his business to demonstrate its exact scope and objectives. This means potentials for short-term and long-term locker rentals, processing, meat sales, slaughtering, and any other specific activities. The manager should consider not only present activities but also other activities, preferably related to the locker plant business, which may offer potential business.

The development of new business is currently of real concern to most locker plant managers. The two areas of

business receiving the most thought and consideration are (1) provisioning home freezers by quantity sales of meats and fruits, and (2) increasing emphasis on merchandising either by means of a retail meat market or by quantity sales of products. Some thought is being given to going into the sale of home freezers with or without food plans.⁶

Analyzing Potential Business. - When a manager is analyzing the potential of any new business, he should avoid being either too optimistic or too conservative. Overoptimism not only leads to disappointment but may also involve great waste in that assets are underutilized or other opportunities are missed.

Too much conservatism may mean missing a good opportunity altogether or taking advantage of it too late to gain the value of being first and thus establishing a market position before strong competition sets in. How to walk between these two dangers in appraising the potential of new business activities depends more on the art than on the science of management.

If a new activity is related to his present operations, as it should be, a manager may be able to gain some experience and some idea of the activity's potential before making a final decision. Most plants can try an organized program of freezer provisioning on a limited scale without major changes in present operations or additions of new personnel and capital.

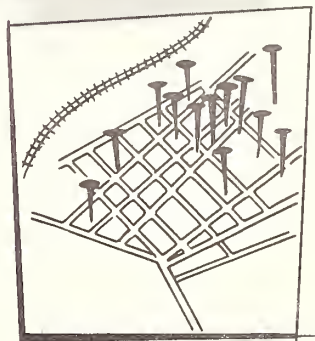
If the new activity is unrelated to present operations, the manager should talk with a person who may know something about it. He may also use a limited operation for experience and thus obtain a better basis for an estimate of potential.

Estimating Potential Business. - The first problem in estimating a potential is to consider what type of individual or family is likely to use the service. The characteristics of present customers may help in establishing the definition of potential customers. Questions such as what level of income is necessary to make use of these services, does type of employment have any influence on the use or non-use of a service, and many others must be answered. It is not sufficient simply to state that all those who do not now utilize each particular service offered are potential customers. There is no reason, for example, to consider all persons not now renting a locker as potential locker customers.

Once the type of person who can use a service has been defined, the manager needs to estimate how many live within the geographical area from which he can reasonably expect to draw



WHO ARE THEY ?
WHERE LOCATED ?



POTENTIAL BUSINESS ?
CUSTOMER INCOME ?

⁶A systematic plan of selling frozen meats, poultry and commercial frozen foods in packaged form in quantity lots designed to last a family for a certain period of time. Many food plans also sell home freezers. Both freezers and food are financed by the seller. Frequently a delivery service is provided for orders of \$25 or more.

trade. This is known as his trade area. To determine his trade area, a manager can study traffic arteries and patterns of the town in or near which his plant is located. This information, combined with a diagram showing where his present customers live, will give him a good idea of the territory from which he might draw new customers. A local newspaper is a valuable source of information on the trade area of a community.

The second step in developing a market potential is to estimate what volume of business this group of potential customers will provide for the products and services the plant offers. One basis for this estimate is the per capita purchases of each service and product by present customers. This figure cannot be considered conclusive because it should not be assumed that a plant is obtaining all the sales volume possible from its present customers. However, the figure could be taken as a minimum expected.

Evaluating Competition. - In developing these potential estimates, the manager should first ascertain the size of the total market for a given service. Then it is time to study what percent of the total he can get, giving due consideration to competitors, their selling efforts, and his own. He should not consider competition as a single element, but rather should look at each individual competitor in relation to the total potential market.

If the manager takes competition into account in the first determination of potential, his estimate of the size of the market may be too low. The proposed method is likely to give an estimate closer to the true potential and enable the manager to develop better policies for tapping it. Too low an estimate might mean that he would miss much of the potential business, leaving

it for someone with more foresight or letting it be lost altogether.

Help in making a market analysis can often be obtained at small cost from the business administration department of a college or university.

Appraisal

Before appraising the eight plants as to customer analysis and determination of market potential, it will be helpful to describe briefly the kinds of business they engage in besides renting lockers and processing.

Five of the eight firms had slaughter facilities; two raised cattle in feed lots and operated as small meat packers; three sold both freezers and food plans; two sold only food plans; two operated a retail meat counter; two had organized sales efforts for institutions and schools; two operated as wholesalers of frozen foods and meats to small retail grocery stores; and two actively solicited provisioning of home freezers with a food plan.

This indicates the wide variety of major activities the eight plants undertook to supplement locker and processing income. One plant was active in each of these activities; six were active in only one or two.

Knowledge of Customers. - None of the managers made any organized customer analysis. Each had some notions of who his customers were, what kind of service or product he furnished to them, and, perhaps, how much. It appears, however, that the managers' knowledge of their customers was inadequate and that a more organized analysis would be helpful. Most marketing research consultants advise a thorough sales analysis, which is really a customer analysis, as the first research to be done.

Similarly, the managers had little idea of the volume of potential business by type in their trade areas. In general, their attitude seemed to be that there was more potential business than they were getting so why be concerned with exactly how much it was. Yet nearly all the firms were seeking more volume. It is easier to obtain business from a group with a large potential than from one with a smaller potential. Also, by measuring potential business, the manager can better evaluate how much he can afford to commit to its development.

Industry Trends. - More than one manager suggested each of the following trends was taking place in the locker industry. Observation and evaluation of these trends is a crucial part of measuring market potential. First, all believed locker rentals would continue to decline, but that because of higher rates on short-term lockers, the decline in dollars of rental income would be less than the decline in percentage of lockers rented. They believed, however, the greatest decline had already taken place.

Second, in their opinion the big future market potential was represented by home freezers and refrigerators with large freezer compartments. Third, two operators forecast the sale of meat in bundles rather than halves or sides. Finally, two thought a future trend of many locker plants would be toward becoming small packers.

We commend the managers to the extent they recognized and sought to evaluate the trends mentioned. However, nearly all managers should do more to relate these trends specifically to their plants' business.

Sales Forecast

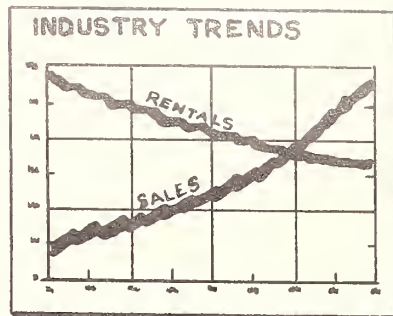
A sales forecast is a prediction of sales to be obtained in a given period, generally a year, with sub-forecasts for shorter periods as a quarter or a month. An estimate of the share of the potential market to be obtained in a particular month, quarter, or year is also called a sales forecast.

The distinction between a sales forecast and a potential is that in estimating the former the manager considers his promotion activities and those of his competitors. Judgment is needed as to how successful these promotion activities will be and how many sales they will bring to each plant.

A sales forecast is based upon figures for past sales. It is an estimate of how much sales for the next period will differ from those in the present and previous periods.

Factors to Consider

Three factors can cause a change. The most important is the manager. Is he planning to increase or decrease sales promotion



Sales
 Last month \$1,500
 Next month ?

activities? Is he changing the kinds or quality of products and services offered by his plant? Is the locker plant about to realize the benefits of previous sales promotions? What should be the "natural" growth of the business? What do employees, such as outside salesmen, who have a direct influence on sales, expect in the next period?

The second factor is competition. Are competitors changing their promotional activities, their products and services, or anything else which could affect the business? Here it is important to consider who are the locker plant's competitors. If a locker plant changes the nature of its business, for example, from an emphasis on renting lockers to more merchandising of meats and frozen foods, the businesses considered competitive will also change.

The third factor is the economic condition of the community. Has any source of employment and income recently entered the community, or recently left? Are local business concerns working at capacity or are employees being laid off or on strike?

Full consideration of these three factors should guide a manager in relating his past sales to his forecasts for the next period.

existing resources are not being fully utilized or if they are inadequate.

If present resources are inadequate, several alternatives present themselves. Overtime work and pay are possible. Closer control over the flow of goods through the plant may permit greater use of resources. If specific facilities are inadequate, they can be expanded or temporary additions can be arranged. The alternative of less active sales efforts, hence fewer sales, is also possible but should be the last one taken. If present resources are excessive, efforts can be made to increase sales. This is discussed in the next section.

Third, preparation of a sales forecast sets the level of anticipated operations. Expenses necessary to achieve these sales and the net income to be expected from them can be planned. Again, if expected net income is not adequate, corrective action can be taken. This process also provides the necessary records and plans for budgetary control, as discussed earlier. Once the planned sales, expenses, and net income have been established, actual results can be compared with these plans and the quality of performance determined.

Appraisal

Value of Sales Forecast

A sales forecast can be of great value to a locker plant manager. First, a forecast sets a goal for the business. This provides incentive to the employees as they perform their daily operations, and is also a standard of attainment.

Second, it gives a basis for estimating what personnel and plant resources are needed to achieve the goals. These resources can be obtained through systematic planning, and not in a haphazard manner. A forecast also allows corrective action to be taken if

In setting their sales forecasts, the managers generally figured on a continuation of past sales. Evaluation of the three factors -- their efforts, the efforts of competitors, and economic conditions -- was usually not actively incorporated in any forecast of next year's business. Their attitude was that if they decided to seek more business they could get it without too much difficulty.

To see how much thought they had given to an increase of sales, we asked where they could get another 10 percent. Most of the answers were very

vague, such as "from processing," "curing," or "slaughtering." They did not seem to have considered possible sources of additional business too deeply. One manager knew his sales plans for next year in considerable detail and what sales volume they should produce. Another was going to "double" his business but this appeared to be no more than a catchword.

Attitude Toward Competitors. - All were aware of the influence of economic conditions in the community. Their attitude towards competitors, however, was the most interesting. Most felt they had no effective competitors. One manager even helped his competitors by ordering berries with them so they could get a truckload. His explanation was that these other plants did not give him too much competition.

Some recognized that supermarkets were, or could become, competitors to locker plants in provisioning home freezers. If the locker plants begin emphasizing merchandising more than service for farmers or the renting of lockers, supermarkets may become more of a competitive factor.

Sales Plans. - Four managers had thought about sales plans for the next 5 years. Three had plans which were possible to attain and had begun action to achieve them. The other figured on a substantial increase in sales volume but was unable to indicate how this was to take place. One also foresaw substantial changes which would change the character of the locker industry.

Two omissions were noted in the preparation of forecasts. Frequently employees did not participate in establishing the forecast and were not alerted to the sales goals that were set. Another weakness was that the plans of action were not consistent with the sales goals set. One manager stated a sales goal in dollars. Then he described how many physical units of one of his products he hoped to sell. Achievement of that quantity would have given him a sales volume considerably in excess of the dollar figure he quoted.

Sales Promotion

The underutilization of resources and decline in locker rentals in many plants make sales promotion a topic of interest and importance to managers. Sales promotion has two objectives. One obviously is to promote sales. We include, as part of our discussion of sales promotion, the search for different and new kinds of business. Naturally, this new business must be considered in the other three parts of an integrated sales program. The second objective is to make the people living in the trade area aware of the plant, its products, and its services.

There are many methods of promoting sales - directly, as with advertising; or indirectly, as with public relations and

Factors

Forecast

1. Your efforts
2. Competitors' efforts
3. Economic conditions



ACTUAL CUSTOMERS



POTENTIAL CUSTOMERS

publicity. The severest limitation on the means by which sales can be promoted is a manager with a limited imagination. The rewards are great for one with a vivid, yet practical, imagination. The sales promotion methods described here are suggestive rather than complete. Any manager should be able to think of many more, and of some which are peculiarly suited to his community.

Advertising

One of the best means of promoting sales is advertising. Proper use requires judgment in selecting media and appeals, preparing copy and layout, and reproducing the advertisement.

Selection of Media. - Four media are available to the locker plant manager -- radio, newspaper, television, and direct mail. Before using any of the first three, the management must question whether they cover adequately the trade area served by the plant. Customer analysis and determination of potential, as described earlier, will give a measurement of trade areas served which can be compared with the coverage maps available for each of these media. Media which cover a larger area than the trade area of the plant reach people who are not potential customers. These media should be avoided as well as those which cover too small an area.

An additional question about the use of television is whether advertising results can justify its rather high cost. Its message is vivid and the medium permits the use of visualization, but a manager needs to weigh carefully these added benefits against the cost. One possibility, if there are several plants within the coverage of the television station, would be a joint program by them on the benefits of frozen foods or the services offered by locker plants.

Managers used direct mail extensively. With this medium a manager can control to whom advertising goes. There are several sources of mailing lists. One is, of course, a list of the firm's customers. Some chambers of commerce prepare lists of all people moving into the town. Another source would be local appliance dealers' lists of persons purchasing home freezers.

Regardless of source, an ideal mailing list containing only names of potential customers is seldom available. A manager's problem is to obtain the best list possible. If no good list is available, the post office will deliver mail to "Occupant" if a specific address is given.

The telephone directory is a ready-made list and a group of women on a battery of telephones can make many contacts in a short time. However, some selectivity should be exercised as to whom is called.

Some general advertising is perhaps desirable before use is made of either direct mail or telephone. Then when a prospective customer receives direct mail or a telephone call she already knows something about the plant and may be more receptive to the message.

Type of Appeal. - Numerous advertising approaches are available, but we group them under four headings. One is promoting "specials." These may be good buys on meat, a reduced processing charge to freezer customers for a limited time, 13 months' use of a locker for a year's rent, and so on. The specials lead a customer into the locker plant and the manager hopes that the service and products offered will prove so satisfying that the customer will continue his patronage. This is called leader merchandising and is often practiced by chain food stores.

Another approach is the promotion of a food center where meats and

frozen foods are available in quantity. This develops the idea that the locker plant is the best place to get frozen foods. It usually is more advantageous to promote large rather than small quantity purchases of these frozen foods.

A third approach is to emphasize the convenience of having quantities of frozen foods available and the nutritional value of the foods. Managers showed no unanimity of opinion as to whether quantity purchases of frozen food resulted in any saving. Those who believed there was a saving had no figures for evidence, although cut-out tests would give figures to prove or disprove their case. Locker plants should have facts, not estimates, when they discuss possible savings with prospective customers. Misleading or disappointing a customer gains nothing except ill will.

A manager may wish to tie-in premiums with his promotion. Two dangers must be avoided in this. To be successful, a premium must have both appeal and value to the consumer. Tying it in with a season of the year or a special day (such as Mother's Day) adds to its appeal. However, the manager must remember he is selling meat, processing, or some other locker plant service and not the premium. Frequently so much stress is put on the premium being given away that the consumer loses sight of the real product the locker plant has for sale.

Preparation of Copy. - In advertising, copy which tells its story simply and directly and a layout which is pleasant and readable will gain many readers. The advice of an expert should be sought if anything more elaborate than mimeographing is used. Many publications give advice and help on these subjects. For example, the Bureau of Business Management of the University of Illinois publishes a bulletin, "Advertising for Retailing," which contains much helpful material. Trade associations and trade magazines also provide help in developing advertising programs.

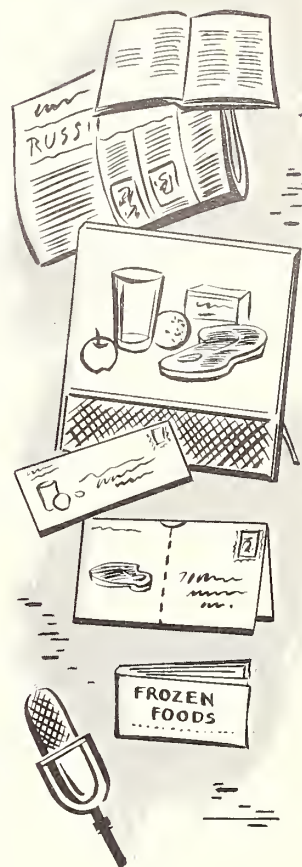
Public Relations

Good public relations exert a positive influence on sales, but the sales lost by poor public relations may be of even more importance.

Public relations depend largely upon the personnel of a plant and the kind of service they give. No matter how hard the manager works to develop a plant and services which will win friends, his efforts are for naught if his employees alienate customers with an improper attitude. A patron of a locker plant judges it by the employees with whom he deals, and not necessarily by the manager.

A manager must realize his responsibilities in the community. This does not mean joining every local organization. Rather, he should join those in which he has a sincere interest and for which he is willing to work. Participation in local activities brings the

ADVERTISING MEDIA



manager in contact with other leaders and also lets the residents know he is willing to carry his share of community responsibility.

Although most managers create their own public relations situation, good or bad, some managers inherit theirs. The man who buys out another's business should realize that he buys more than physical assets. He also buys whatever good or bad will the business has established. If a new manager or owner has fallen heir to a poor public relations situation, he must work doubly hard to erase unpleasant memories from the minds of the public.

Publicity

Publicity helps make people aware of a plant. An example of good publicity would be a story of a prize won by the locker plant in a ham show, or a demonstration by an agricultural extension team on meat cutting or curing of hams. Special events should be adequately covered in the local news media, and they probably will be if the manager provides the information.

Sponsorship of meat cutting demonstrations and trips through the locker plant for various groups are other types of sales promotion. Groups which would be interested in plant tours might include high school students enrolled in home economics and agriculture courses, women's clubs, 4-H clubs, Future Farmers of America, and Future Homemakers of America.

Promoting New Business

In considering what new business the plant can obtain, a manager should realize that his plant is equipped to handle, process and freeze large quantities of meat, fruit, and other products. This is a valuable service and product which he can sell to locker patrons, owners of

home freezers, and owners of refrigerators with large freezer compartments.

Income is available to a plant from many sources. Some of these are the sale of meat by quarters or side, frozen fruit, vegetables, juices and other goods; operation of a retail meat counter; lard rendering; ham curing; slaughtering; processing; locker rental; and storage.

Locker plants have gone into the sale of home freezers, food plans, and special products such as wrapping materials for foods produced and frozen at home. Some locker plants have developed a sales program for institutions and other businesses comparable to that directed to consumers.

Home Freezer Market. - Certain developments seem to hold the most promise for new business for a locker plant. One is cultivating the home freezer owner. A good case can be built on the fact that the home freezer is not designed to freeze large quantities of food products. This is the specialty of the locker plant. The home freezer owner may have bought his freezer to save money by the quantity purchase of food. The locker plant can supply this quantity food. But unless the locker plant steps in quickly and establishes itself in this position, some other branch of the marketing force, such as the supermarkets, will take it over.

A locker plant may provide meat and other products in quantity, sell food under a food plan, or promote its market for quantity food by also selling the freezers. Selling home freezers puts a locker plant into another business with its own special problems, the main one being the scarcity of management to handle both the locker plant and the home freezer sales and service work. Which position a locker plant manager adopts is entirely up to him. It does appear desirable for him to develop the market of supplying food to home freezer

owners as one fitting in with his special abilities and one for which he has the equipment and know-how.

Before working hard to reach a certain type of new business, a manager should carefully analyze its future trends to avoid wasting time and energy on a fad. Two facts suggest earnest study of the market potentialities of home freezers. One is that sales of home freezers have declined. It is not clear if this sales decline is greater or less than the present decline in sales of all appliances.

The other is that evidence is accumulating to indicate home freezers now owned are not being utilized to capacity. Some of them sit idle. This is of special importance to a locker plant manager considering soliciting business from home freezer owners. He may need to reconvince some owners of the value and use of their freezers, if the original selling job was inadequately performed by the salesman who sold the freezer.

Related to the declining use of home freezers is evidence that the housewife enjoys shopping trips to the supermarkets. If this is the case, it may be a more difficult job to point out to her the value of quantity purchases of meats and frozen products. Certainly, the sales appeal used with this type of customer would be different from that used with a housewife who disliked the shopping trips. These findings are for the nation and specific parts of the country. A locker plant manager must check to see how true they are for his trade area.

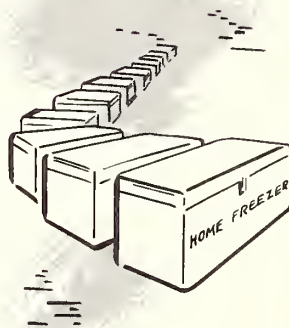
Refrigerators With Freezer Compartments. - A closely related market consists of owners of refrigerators with small freezer compartments. To tap this market, the locker plant manager probably needs to develop some form of selling meat in pre-arranged bundles or packs.

From our field contacts outside of the eight locker plants studied, we learned some locker plants and a large meat packer are experimenting with the use of meat bundles or packs for home freezer trade. Each manager would need to investigate the number of refrigerators with freezer compartments in his area as well as what particular combinations of meats would appeal to buyers. Bundles containing a large portion of steaks and roasts and no lower-priced cuts of meat might be the ones which would sell best. This would mean that lower-priced cuts of meat would have to be sold some other way.

Retail Meat Counters. - We also found locker firms operating retail meat counters with a few groceries, and renting cold storage space. The former is in line with the locker plant's activity as a handler of meat but does not make full use of its specialty, the handling and sale of meat in quantity lots.

Reports from the Census Bureau show that meat markets are declining in terms of both sales and numbers, while grocery

DEMONSTRATION



stores with meat are increasing rapidly. This indicates further the American housewife's desire to do all her food buying at one place. If one of these grocery stores is doing an excellent job supplying retail meat to a community, there is less opportunity to compete with it. In addition, running a retail grocery store presents special problems such as pricing, inventory, and buying.

Operation of a cold storage warehouse is feasible if the locker plant is not using all its storage space. We found very few plants in this situation. In many states, operation of a cold storage warehouse may require obtaining a license and meeting certain other requirements. These points should be thoroughly checked before embarking on such a venture.

Cattle Feeding. - Another possibility for new business is integrating the feeding and slaughtering of cattle with present locker plant activities. Two of the eight plants studied are doing this. In effect, they are becoming small meat packers. This requires special facilities which may not be available to many locker plants, plus development of skill in buying and raising cattle. It appears to have good possibilities, however, for managers with the necessary facilities and skills.

From personal experience, the authors wonder if more active promotion of lockers on either a short-term or long-term basis is not needed. A short-term locker rental might interest a person owning a small home freezer or a refrigerator with a freezer compartment. The long-term is for a customer who wishes to store all his frozen meats. With charges for processing running close to the break-even point, and meat and other merchandise sales depending on the skill of the buyer, the rental of lockers provides certainty of income

most of which is a contribution to overhead and earnings.

In the few cost studies that have been made, renting lockers was found to be one of the most financially successful activities. If a manager would develop an income statement for each of these three parts of his business -- locker rentals, processing, and sales of products -- locker rentals probably would show up very well in terms of net income to the business.

Problems to Consider. - In the chapter on Financial Management we explained why plants A and D which had the largest percent of their sales volume in merchandise sales also suffered a loss. Their results and the preceding discussion on new business emphasize three points.

First, new business should be sought which is directly related to the operations of a locker plant or peculiarly suited to the talents and experience of the manager. Selling frozen foods to retailers does not utilize all the advantages possessed by a locker plant, particularly those of handling and processing large quantities of meat. One example of the talent and experience of the manager making an operation not directly related to a locker plant successful is plant F's retail store.

Second, new kinds of business must be carefully analyzed as to the amount of resources needed, the size of market opportunity for this kind of business, and the volume of business needed to make a profit. Special consideration should be given to businesses which can utilize the same resources as the locker plant, thus effecting more efficient use of these resources.

Third, separate records should be kept for each kind of business. This allows the manager to evaluate the success of each. If one is unsuccessful, a thorough analysis of the operating

statement and other records may give the manager some ideas as to why that particular activity did not make a better showing. He will then be in a better position to decide what changes he should make to improve the situation.

Appraisal

The eight plants generally had one or more of five objectives in their advertising. These were:

1. Sale of their regular products and services.
2. Promotion of the plant as a frozen food center or freezer provisioner.
3. Promotion of specials to serve as leader merchandise.
4. Promotion of a premium offer tied-in with a regular product or a special.
5. Soliciting cattle and hogs for purchase.

Regardless of the objective, advertising should always be consistent with the goals of the plant. One manager said his goal was to sell more quarters of beef. Then he proceeded in his advertising to promote the sale of smaller cuts of meat over the retail meat counter of his plant. Such advertising would have been wasteful if the goal of the plant had been as stated by the manager.

In this case, however, it appears that it was the statement of the plant's goal, not the advertising, that was out of step. The goal stated by the manager was not the real goal of the plant and the objective of the advertising was therefore not inconsistent.

The plants studied used all major forms of advertising media with the exception of television. Two plants used direct mail very heavily; four used radio spots; seven preferred newspaper advertising. One plant advertised only by word of mouth. Those that used radio spots usually placed them according to some regular schedule. This was also true of newspaper advertisements. Direct mail pieces were sent to announce specials. One plant sent out at least one piece of direct mail every month. This particular manager had a good mailing list because he was able to get the names and addresses of home freezer owners in his trade area from local appliance dealers.

Promotion of Food Plans. - There was considerable discussion as to how food plans should be promoted. Economy, better nutrition, convenience, or a combination of these were among the appeals mentioned. One manager sold the plan on an economy

New Business

Custom Processing
(Home Freezer
Provisioning)
(Slaughtering)

Special Products
(Country-cured
ham)
(Smoked Turkeys)

Special Services
(Institutional
Storage)
(Food Financing)

basis, advertising that savings paid the weekly cost of a freezer. He claimed this was true if the family spent \$20 or more a week on grocery store products.

His presentation was based on quoted figures from an impressive source. However, since some prospective customers might question their validity, an appeal based on convenience and nutrition might give better results.

A manager who felt there was no economy involved sold his plan on the basis of better living for no more money. Another manager who had no food plan was opposed to the entire idea. Others split evenly on whether economy could be used as an effective and accurate selling claim. Because of this difference of opinion, there is need for research to determine whether quantity purchases of meat and frozen foods on a food plan can prove economical.

Of the two plants that actively sold freezers, one sold at a discount and the other did not. Some of the other plants occasionally sold freezers. They were apparently not interested in developing the outside sales force which seems essential for a successful freezer business. One plant even promised the local appliance dealers not to undertake the sale of freezers.

In matters of public relations, publicity, and use of other forms of sales promotion, most of the firms did a fine job. Several managers were very active in their communities.

A number of the plants, however, were weak on in-plant display. In two or three the display was inadequate and generally unattractive. Prices posted did not always give the needed information and in one plant were confusing to read.

Types of New Business. - Plants have sought new business from freezer

provisioning, sales to institutions and schools, retail meat counters, wholesaling to small retail stores, and building an integrated organization from raising the cattle on feed lot to sale of frozen meats. Each manager had developed activities that appeared to be best suited to his community and to his personal interests and ability.

Sales to institutions and other wholesale operations ordinarily are made at a small margin and the manager needs to evaluate his operating costs closely. Large retail stores and institutions can usually buy products directly for as low a price as can the locker plant. Thus, this market often consists of small volume accounts which are more costly to service than the larger volume accounts.

One of the plants actively engaged in wholesaling prepared a separate income statement for that portion of its business. It sustained a loss from wholesaling, clearly showing management a problem which needed attention and action. Such separate income statements are desirable, if not essential, for each kind of business activity within a firm. They permit the manager to decide what business to promote, and what business to retain.

Need for Outside Salesmen. - A good program of freezer provisioning, food plans, sale of freezers, sales to institutions, and wholesaling to retail stores probably requires use of outside salesmen. The two plants actively selling freezers had built up good outside sales organizations. They relied on canvassers who located potential prospects at a fairly low rate per hour. Then the salesmen took the leads and made a presentation. Both used the incentive form of compensation but did not neglect the supervision which is needed even with incentive plans.

The prevailing attitude toward locker rentals is clearly revealed by evaluating managers' opinions about the future of this type of business. Not one manager was actively promoting lockers. One believed active promotion would give him 100 percent rental but that this would cost him freezer sales on which he thought he made more money. Another was trying to make lockers a smaller part of his business and two more were trying to get rid of them altogether.

Most plants had removed a number of lockers and had far less than 100 percent rented. Thus, the attitude of the managers studied indicates that locker rentals will continue to decline for lack of adequate promotion.

Marketing Policies

An integrated sales program requires that certain marketing policies be adopted. These include pricing and credit policies and methods of handling such related problems as guarantee and adjustment. It is important that these policies be consistent with one another and with the total sales program.

Pricing

Determining costs

Pricing

Managers are well aware of the importance of their pricing policy. Obviously prices must be high enough to pay all costs and leave a net income. The price necessary to do this for each individual item, however, is difficult to determine.

Gross Margins

A necessary step in establishing a price is determining costs. Yet in the locker plants studied costs usually were not known. For example, no locker plant had specific knowledge as to its processing costs. Several managers believed their prices were covering costs, but this opinion was based more on feeling than detailed information.

Loss Leaders

"Contribution Pricing." - One difficulty in establishing the cost of any item is the assignment to it of its share of overhead charges such as light, manager's salary, rent or interest on the mortgage, and office salaries. A concept called "contribution pricing" or "gross margin dollars" has been developed for this purpose. This assigns to each activity, department, product, or other subdivision of a business the direct costs connected with it. Examples of direct processing costs are the paper used and the salary of a person who works exclusively on processing.

Contribution Pricing

Once direct costs have been assigned to each activity, these costs can be determined for a given period, related to output for the same period, and a unit direct cost computed. The difference between this unit direct cost and the price charged gives the contribution to overhead and the net income.

If a price does not cover the direct costs which arise solely from engaging in that activity, then the price must be raised, or the activity discontinued. In rare cases, an activity whose price does not cover its direct costs may be continued because it brings in other business or because it is necessary to provide a full line of service.

Even when an activity is making a contribution, there is still a question as to its adequacy. In making that determination the unit overhead costs for each activity must be estimated. If the contribution is smaller than the estimated unit overhead costs and no better alternative use of the resources exists, then the question of raising the price must be faced.

Raising Prices. - A decision to raise the price requires considerations of the role each activity has in the business, the objectives of the business, and the effect of the price increase on sales volume. Is the activity a major one in the business or does it support another one? Is its objective to provide a service to patrons or to make a profit?

These considerations can be illustrated by a discussion of processing charges. Regardless of the price charged for processing, the plant should know what its processing costs are.

If the organization is established to provide a service to its members, as in the case of a cooperative locker plant, a price adequate to cover costs may be all that is needed. In determining costs in cooperative operations, however, provision should be made for an accumulation of reserves to finance periods of loss, needed changes in facilities and operations, and for expansion.

A plant which wishes to make money on its processing needs to consider what a change in price will do to volume. Perhaps if the processing price is raised from 4 cents to 5 cents, the

volume will decrease from 100,000 to 75,000 pounds. The price increase then may not be justified as the total number of dollars entering the business will be lower after the price increase than before. On the other hand, should the volume remain about the same, then the price increase can be justified.

Our investigation indicated that the price of processing has remained low, although most managers believed customers would not reduce their volume of business if the price were increased. In such a situation, the manager obviously was making processing a service rather than a money-making activity for his business.

Other Price Considerations. - There are five other points for a manager to consider in establishing prices. One is the price competitors charge for a comparable product or service. This does not necessarily mean he must have the same price. It does mean that any difference must be justified by convenience of the plant location, quality of the product or service, availability of other products and services, or similar reasons.

The second is the extent to which a manager wishes to use "leader" merchandising whereby prices are reduced temporarily on selected products or services to "lead" customers to the locker plant. The success of such merchandising depends on using as "leaders" products or services that have a real appeal to consumers.

A third consideration is whether the price of one service is tied-in with another. Meat purchases may be stimulated by charging a lower price for processing meat purchased from the plant than for processing that bought elsewhere. Several other combination offers are possible. There is some danger that too many combination prices may confuse consumers. It seems better to concentrate on a few.

Another is the flexible pricing of services on a seasonal basis to attract new business during low volume months. This method may also be used to shift some processing from high volume to low volume periods and thus even out business throughout the year.

The final consideration is the kind of reputation or market position the manager wants for his plant. Does he wish it to be known in the market as the plant with the low prices and good buys, or as the plant with products of highest quality at prices a little above the going market? The prices charged must be consistent with whichever market position he wishes to achieve.

Guarantee and Adjustment

No matter how well a business is run, a few customers will be dissatisfied with the goods they receive. All of the locker plants studied guaranteed a refund if a customer was not satisfied with his purchase. This is a desirable practice.

One operator reported making a refund to a customer and, at the same time, pointing out that what had happened was beyond the control of the plant. Tactfully done, this is good management.

Credit

If a locker plant is to enter actively into quantity sales of meat and frozen foods, credit becomes a "must" to help customers finance rather substantial purchases at one time.

In granting credit, attention should be given to the three "C's" -- character, capacity, and capital. Character represents the integrity and honesty of the individual seeking credit and his willingness to meet his obligations. Capacity represents his ability to earn enough during the credit period to pay his obligations. Capital represents his financial strength, that is, what he owns in excess of what he owes.

Some business firms consider a fourth "C" -- collateral. Meat and other foods are consumable products and are not good collateral. A locker plant manager is therefore forced to rely on the three "C's", particularly character, in granting credit.

A manager may develop his own application form to obtain information needed to rate a prospective borrower as a credit risk. He may wish to contact other sources for their information and judgment. The prospect's bank or the local credit bureau may be able to give valuable information on his spending habits and other indebtedness.

Product and Service

When a customer spends a dollar at a locker plant, he is buying a combination of goods and services. It is the manager's



3 C's of Credit
Character
Capacity
Capital

job to fit both of these to the customer's needs and desires.

Many managers commented that customers do not know good meat and, particularly, do not know how it should be cut. These managers should seriously consider trying to educate their customers in good meat buying and cutting. There is merit in giving the customer what he wants, even though it may not be the best he could get, but tactful suggestions on better ways to cut meat might make him an ever more satisfied customer.

The quality of the products is of prime importance in keeping customers satisfied. However, managers should not overlook the value of a few special services. Such "extras" as providing overflow baskets for a few days of storage free of charge are often valuable business-builders.

Appraisal

The plants studied usually priced their meat, whether packer or local kill, at a certain percent above its cost. There was less uniformity, and even less certainty, about the price to charge for processing and for other services such as curing. The basic difficulty in setting a processing price seemed to be whether the object was to provide a service or to produce a net income. If the latter, then costs are very important; but generally they were not known in sufficient detail to serve as a basis for an intelligent pricing decision.

In one plant processing charges depended on the kind of wrap the customer received. Differential prices also existed for other services. By and large, the locker plants did not attempt to set up many price differentials.

Credit Policies. - The three plants selling freezers generally arranged for

a bank or the manufacturer's credit organization to carry the financing. Only one plant made active use of the local credit bureau, a practice which could be more widely adopted. The others evaluated credit applications themselves. Another plant gave credit on only quarters and halves of beef with requirements of 25 percent down, 3 months to pay, and interest on unpaid balances. One plant gave credit only on lockers and used a check-in and check-out card system to notify customers of any other charges. Two plants operated in nearly opposite fashion. One gave practically everyone credit; the other gave almost none.

Whether any of these plants will need to change their credit policies will depend on the future developments of their respective businesses. Expansion of credit may become necessary if present trends in the locker business continue.

Collection Procedures. - The three firms using outside help to carry their accounts receivable had definite collection procedures. Usually, the manager wrote a series of letters after a certain period of delinquency. If the letters did not bring payment, he made a personal visit. Finally, the delinquent account was turned over to a collection agency. The one manager using a credit bureau consistently had found that a statement to a customer indicating that the delinquent account would be reported to the credit bureau spurred payments.

In general, collection procedures seemed satisfactory, for the number of bad debts reported was very low. One firm had recently sent its first bills in 4 years. The manager said he knew everyone and billing was unnecessary. Although his collection problem was not serious, this appears to be a questionable practice.

Chapter 5

PRODUCTION MANAGEMENT



Every business must organize its resources to meet
a schedule.

Production and office management

Techniques and equipment

- Scheduling production

- Plant layout

- Multiple plant operations

- Plant equipment

- Appraisal

Performance evaluation

- Measures of performance

- Appraisal

Management of office facilities

- Office location and equipment

- Records and systems

- Appraisal

PRODUCTION AND OFFICE MANAGEMENT

Production and office management are other areas which deserve a great deal of attention. Essentially, production management has two parts: (1) management of techniques and equipment, and (2) performance evaluation. Office management deals primarily with the clerical and record-keeping functions of the firm.

Techniques and Equipment

The production management discussed here refers to the company as a whole, rather than to the production of individual employees. The basis for this type of management is production control or scheduling.

Every business, whether it offers products or services, must organize its resources to meet a schedule, and all activities of the business should be fitted to that schedule. This section will discuss only production of processing services. Sales activities were discussed in Chapter IV.

Scheduling Production

In the typical locker plant, demand for processing comes from two sources. It stems from the sale of meat or processed food and from the sale of custom services. Ideally, the manager should review the number of orders each day, determine the number of man-hours required to process them, and engage the proper amount of manpower and equipment to accomplish this work.

Of course, such a system would be impractical. Equipment is already owned and it depreciates whether it is used or not. Men are employed for a specified period of time -- a week, month, or season. Therefore, managers must work within the framework of a given supply of equipment and an almost fixed supply of labor. The trick is to do the best possible job of manpower and equipment management within these limitations.

Coordination of Sales and Facilities. - Once a plant has been built and equipment installed, there is an optimum volume which will permit it to operate at lowest cost. Thus it is important to coordinate sales and production. If the plant is operating below capacity most of the time, an increase in sales activity is obviously necessary. If the plant is frequently running beyond

SCHEDULE TUES.

JIM

BILL

BOB

PAUL

optimum capacity, there is a choice of increasing physical facilities or reducing sales activities. Yes, it is possible for a plant to have more business than it can handle economically.

With sales and facilities coordinated, production scheduling is not difficult, unless the flow of sales orders is uneven. Unfortunately, there are fluctuations in the locker business. Facilities must be available to handle the peak seasonal volume, even though some of them are idle the remainder of the year. Part of the problem can be solved by hiring extra workers during the peak season, but it is not possible to shrink the size of the plant or equipment.

Daily Scheduling. - Even though facilities can be adjusted to meet seasonal conditions, there are still day-to-day fluctuations to be handled. Here daily production scheduling becomes extremely important.

If there is considerable daily fluctuation in the level of activity, a good manager builds his facilities (human as well as plant) to handle the optimum volume. On days when this volume is not reached, he assigns work which can be deferred from one period to another. This work might include washing walls, interior or exterior painting, and various repair and maintenance tasks.

Anticipating Demand. - To some extent, future demand may be anticipated. If a plant has facilities for slaughtering 12 cattle a day and there are only 8 calls for custom slaughtering on a particular day, the manager may choose to add 4 cattle owned by the firm. He is anticipating future sales orders.

Daily work loads in cutting, wrapping, and freezing might be levelled out by developing the sale of prepackaged frozen beef. One objection to this proposal is that it precludes custom cutting. This is not necessarily a problem. The

locker operator should know what cutting instructions are most frequently given in his community. He could have the meat cut to these specifications.

The purpose of this procedure is to spread the overhead costs over a greater number of units and to make the best use of plant and equipment.

Plant Layout

To get maximum efficiency from employees, it is necessary to have a well planned plant. This is sometimes difficult, particularly if the building was not originally designed for a locker plant. However, careful thought and perhaps some structural changes will usually result in a more efficient arrangement.

Straight Line Processing. - The concept of straight-line processing is of primary importance. Much labor can be wasted by cross-hauling supplies and work. Heavy lifting and shifting of material should be done by power or wheels wherever possible. Conveyor track should be arranged to move meat from the plant entrance to the chill, aging, and cutting rooms with as little deviation from a straight line and in as short a distance as possible.

After the meat has been cut, there should be a minimum of shifting. It should not be picked off one table and put on another for wrapping. Wrapping tables should be near the sharp freeze door, and unnecessary trips to the sharp freeze should be avoided.

Use of Carts. - Some managers use carts efficiently. They are loaded at the wrapping table, rolled into the sharp freeze, and later to the customer's locker. This eliminates double handling. Some thought might be given to testing precut wrapping paper to see if it can be used at a saving. Naturally, all supplies are to be stocked at point of use.

All jobs should be studied to determine if any unnecessary operations are being performed or if there is lost motion in performing essential duties. Almost every job can be simplified in some way. A manager should consider every job being done by employees and ask himself if there isn't a simpler, faster, better way to do it. There usually is.

Multiple Plant Operations

Multiple plant operations complicate the job of production management in some firms. Whenever production takes place in more than one location, the relative economy of centralized versus decentralized production must be decided. The question can be answered only after studying the cost of duplicating equipment and manpower as compared with the cost of transporting materials and products from a central location to outlying plants.

Decentralization requires a high degree of production control. All the problems discussed in the first part of this section are multiplied by the number of plants in the system. Nevertheless, a decentralized, multiple-plant firm can be very successful. Such an operation resembles a number of independent locker plants, each with a supervisor in charge, but all coordinated and managed at the top. This permits the economies of mass buying, unification of transportation and specialized but infrequently used equipment, and high quality management.

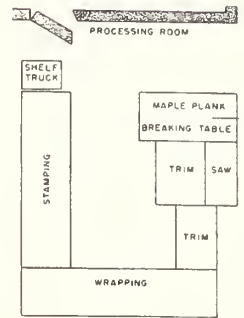
Plant Equipment

In both single and multiple-plant firms, the condition of the plant and equipment is a major factor in the successful operation of the business. A shabby, run-down plant costs money in two ways. First, it causes customers to lose confidence in the firm and, second, it may result in a loss of productive efficiency. For example, inattention to the condition of insulation may cause an inordinately high electric bill due to greater radiation and conduction.

Compressors require servicing from time to time and eventual replacement. Good management tries to avoid breakdowns by preventive maintenance. Equipment which is serviced on a regular schedule, even when it is not being used to full capacity, is less likely to break down during the busiest season when delays will be most costly. Equipment which has outlived its usefulness should be discarded and replaced with new, modern, time-saving machinery.

These questions may be applied to the management of the plant's physical facilities.

1. Are the physical facilities well integrated? That is, are the capacities of various parts of the plant in step with each



PREVENTIVE MAINTENANCE
PAYS

other? Or is there a bottleneck in the chill room, aging room, sharp freeze room, smoke house, or rendering and curing facilities?

2. Does the production line approach a straight line without cross-hauling of materials and supplies?

3. Are facilities adequate relative to volume? Number of employees?

4. Is the plant over or understaffed?

5. Are work areas of adequate size to permit good work habits?

6. Are customer areas adequate in size? Attractive? Well lighted?

7. What is the quality of the construction of the building? Of the equipment? Of the maintenance of both building and equipment?

8. Is the sharp freeze room easily accessible, and is removal of frozen products easy?

9. What is the condition of the plant with respect to sanitation and cleanliness?

Appraisal

It is in production management that most locker managers exhibit the greatest shortcomings.

Several of the plants studied were obviously overbuilt on the basis of any reasonable volume expectancy. In such a situation, only extraordinary management can keep high depreciation charges from eating up much or all of the net income.

Other plants were originally underbuilt, forcing costly later additions. This problem is perhaps less serious. If a plant is too small, the manager has background experience to help decide whether an addition is advisable even though it must be made at high cost.

Unfortunately an error in the original estimate of the size of plant needed may be plain to see for many years. However, managers usually can do something to

minimize the harmful effects of this single mistake. One manager with greater cold storage capacity than needed brought in some income from cold storage warehousing. Another used his overcapacity effectively by becoming a distributor for a line of frozen foods.

Seasonal Problems. - Most managers were alert to the problem of seasonal labor needs and were doing a good job of retaining a skeleton staff the year round to be supplemented with extra help during the busy months. However, one or two managers were not trimming their forces as much as they might in the slow season. While hesitating to reduce forces may be thoroughly justifiable for non-economic reasons, it is usually not a good business practice.

Many managers were taking steps, such as developing a fruit business or trying to educate farmers to slaughter animals throughout the year, to even out their seasonal fluctuations. This helps provide year-round work for more employees.

With respect to day-to-day fluctuations, some managers were doing good work and some poor. One manager prided himself that none of his employees considered it necessary to pretend to be busy when they had no work. In fact, the day of the appraisal team's survey, two of the four employees were hoeing corn in their private gardens behind the plant. Yet, the interior of the plant needed painting and general sprucing up.

Another manager had a long list of "housekeeping" chores and postponable duties which he could assign to employees who would otherwise be idle. The important point is that he preplanned the assignments. He did not try to think of a task on the spur of the moment when he noticed idleness.

Plant Design. - An efficient locker plant manager constantly studies ways to

eliminate unnecessary work and waste motions. This problem can be attacked in two ways. One is to simplify jobs to eliminate or reduce time spent in operations other than production. The other is to rearrange the plant and equipment to reduce time lost in needless transporting and assembling materials.

One of the plants visited was designed with this second purpose in mind. The manager built the plant to provide a continuous production line with a minimum of wasted energy. This man is a graduate engineer which made it easier for him to do this than it would be for most locker managers. But any manager could hire an engineer to appraise and rearrange his plant to conform to recommended plant-layout practices.

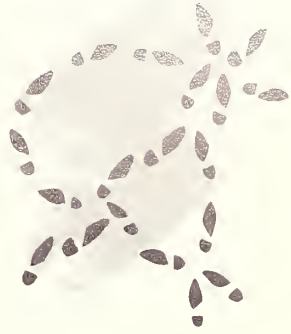
Labor Saving Plans. - Two managers have been experimenting with precut wrapping paper and have concluded that it can save much manpower and some cost of materials. One manager used wheeled tables to move meat from the saw to the wrapping area, thus eliminating unnecessary handling. Another clocked his wrapper with a string-tie and a tape-wrap and found the string-tie cheaper in terms of both labor and materials.

Three of the eight firms studied had more than one plant. In each case, transportation added extra costs. Also, in each case there was a problem of quality of supervision. When the best supervisor was in a branch plant, his control was limited to one or two people. However, the manager has little direct control over the supervisor of the branch plant and so needs a particularly able man for the job.

Preventive Maintenance. - In general, preventive maintenance was only fair. One plant was in a poor state of repair. Normally, this results eventually in higher maintenance cost. On the other hand, another plant maintained a supply of spare parts for equipment, a standby compressor for emergency service, and a policy of regular preventive maintenance. Most of the firms surveyed could gain by putting their buildings and equipment on a regular examination and repair schedule.

Sanitation and cleanliness are of vital importance in the food industry. All but one of the plants rated well on this. But in addition to being kept clean, the plant should look orderly and neat. Providing adequate space for customer and working areas helps appearance. Several plants were below standard; several were particularly good in this respect.

In one plant the meat cutter had such a small place to work that efficiency was bound to suffer, and a well-ordered appearance was impossible. The work and customer areas blended together in another plant, with the result that processing was being done under the very noses of the customers. This might be an advantage in that customers gain confidence in the operation by seeing the work performed. It might also be a disadvantage in



ELIMINATE WASTE MOTION



that it adds to the difficulty of keeping the customer area attractive.

Performance Evaluation

One of the most important management activities is assessing the quality of the job performed by the organization. To be meaningful, a performance test must be related to the objectives of the business as determined by the owner or stockholders. Contrary to popular opinion, these objectives do not begin and end with "making the greatest possible profit." Indeed, in many cases this is not the important motivating influence in the operation of the business.

Measures of Performance

In spite of the many and diverse purposes which might motivate the operation of a locker business, certain standards can be used to measure the efficiency of the operation. Without an elaborate statistical survey, it would be impossible to establish an external measure or measures to test the performances of all locker plants and to compare one with others. No one has determined conclusively what would constitute an acceptable performance in such terms as labor cost per unit or pounds of meat processed per man-hour.

Therefore, it is necessary to establish a measure of performance which can be used internally; that is, within a single business from one year to another. By watching the trend of these measures over a period of years, a manager can gauge year-to-year improvement or deterioration.

Several measures can be used satisfactorily in the locker business. Some of those described here are now being used. Adoption of others might be helpful to managers.

1. Pounds processed per man-hour. This is a physical measure unaffected

by the hourly rate paid employees. It should include only the hours worked by employees engaged in processing work. If slaughtering is done, separate records should be kept on the production per man-hour.

2. Total wages per 1,000 pounds processing. This measures the effect of wage costs on processing, including the overhead costs of non-processing personnel. It will lose some of its meaning if the emphasis of the business shifts to such activities as sales of freezers or other non-processing activities.

3. Maintenance expense per 1,000 pounds processed.

4. Utility expense per 1,000 pounds processed.

5. Depreciation expense per 1,000 pounds processed.

6. Supply expense per 1,000 pounds processed. Measures 3, 4, 5, and 6 all indicate the degree to which management is holding different expense classifications in line with the volume of production. As with measure 2, adjustments must be made when the emphasis of the business is shifted.

7. Wages to fixed assets. In the previous six measures the objective is either a minimum or maximum ratio. This measure should be "optimized." That is, if wages are too high relative to the quantity of fixed assets, it indicates the plant is underbuilt; too low a ratio indicates the plant is overbuilt. What a normal figure should be is difficult to say. It is probably true that up to the point where production bottlenecks develop in the physical facilities, increases in wages in relation to fixed assets from year to year would indicate good use of facilities and reductions would indicate less efficient use.

8. Wages to total expenses. This is another measure which should be "optimized" rather than maximized or minimized. Here, the ratio should be considered in terms of the volume of

sales. With a stable sales volume, good performance might be measured by a decline in wages relative to total expenses. Falling sales volume also should be accompanied by a decline. An increase in sales might be expected to be accompanied by stability or a slight increase in the ratio.

9. Sales per employee. Good performance is indicated by an increase in this figure, but adjustments must be made when the emphasis of the business changes; for example, to the sale of merchandise rather than services.

10. Margin per employee. This measure is more meaningful than the preceding one when changes in emphasis occur. As it eliminates cost of goods sold, it measures only income available to the business.

11. Sales per dollar invested. The comments made for measure 9 also apply here.

12. Margin per dollar invested. The comments made for measure 10 also apply here.

13. Sales margin per dollar of sales. This measure will show the relationship between buying and selling prices. It indicates the combined effectiveness of the buying and pricing functions.

14. Total expenses to sales. This measure should decline with improved operating efficiency, except when less attention is paid to merchandising.

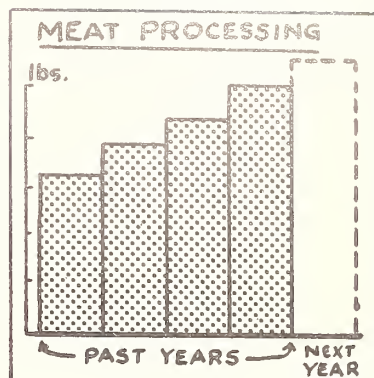
15. Total expenses to margin. This measure does about the same job as 14, with the exception that it is not influenced by the manner in which the margin was obtained.

16. Net income to sales. An improved job is indicated by an increase in this ratio except in cases where profit is not an objective of the business.

17. Net income to gross investment. This shows the rate of return on the capital invested in the business, including borrowed money. Unless this ratio exceeds the rate of interest on the borrowed capital, the business is not doing well.

18. Net income to owner's equity. This is the rate of return after interest has been paid on any borrowed capital, and is the best measure of the rate of return on the owner's equity. Owner's equity refers here to the net worth item on the balance sheet.

As mentioned earlier in this section, these ratios can best be used to measure the progress of a particular business. Generally they are less satisfactory when used to judge one business relative to others in the industry. However, if locker operators in large numbers adopted a uniform accounting system, prepared these suggested efficiency measures, and began to share information within the industry, in a few years some reasonably reliable measures could be set up for use as industry standards.



*Measures of
Performance:*

✓ lbs. processed /
man hr.

✓ wages / fixed
assets

✓ sales / employees

✓ net income /
sales

✓ sales / \$ invested

Appraisal

The measures shown in this section were selected by the authors as being desirable. Most of the measures were not currently being used.

As a matter of fact, the majority of the managers interviewed showed a surprising lack of concern for performance evaluation. The only ones who had established any criteria of a "fair day's work" were those with an incentive wage system. Even in these cases, the piece rate established was related much more to the price charged for services than any expectation of what should reasonably be expected from a worker.

It is recommended that these and other measures be considered much more seriously by locker managers in an effort to establish work standards which can lead to more effective management.

Management of Office Facilities

Office employees gather, process, record, and communicate information. Some of these tasks are performed primarily as a service to customers. Others provide management with information which will facilitate making decisions affecting the satisfactory operation of the plant.

Office Location and Equipment

The office should be readily accessible to customers who come in to make payment on their accounts or to inquire about merchandise and service. Their convenience should be a primary consideration. Locating the office adjacent to and in view of the selling area or lobby is recommended.

There is no business in which cleanliness and attractive physical facilities are more important than in the food

handling and processing industries. A neat, well lighted, and freshly painted office has a positive influence on patrons as well as on employees' morale.

Office employees cannot perform their duties efficiently in crowded quarters. Particularly in a small office, furniture and fixtures should be carefully arranged to provide the maximum work area for clerical employees. The records, tools, and supplies they use most frequently should be easily accessible. A minimum of 60-75 square feet for each employee is usually recommended.

The amount of clerical work performed in the typical locker plant is limited, and complex and expensive office machines are not needed. A printing-type adding machine is adequate for the needs of the plants surveyed. For preparing invoices as well as writing receipts, a continuous form register is well suited and is recommended.

The plants studied had given very little consideration to protecting office records against fire, theft, and vandalism. A filing cabinet or a shelf under a counter was the usual depository. Management should provide more suitable protection for books of original entry and other valuable records.

Records and Systems

The use of preprinted forms has become well established. If correctly designed, these are of real value because they reduce the need for copying repetitive information; facilitate identifying, sorting, and filing operations; and provide for rapid processing of accumulated data.

Frequently, we discover that a new form is born each time a procedure is changed. Over a period of time office managers may find themselves in a similar predicament to that of the Old Lady in the Shoe -- "They have so many

forms they don't know what to do." All forms should be reviewed periodically to determine if they serve the function originally intended. Possibly some can be combined, rearranged, or eliminated.

The office force in the food locker industry, as in many other businesses, has a problem of meeting peak work loads of both a seasonal and monthly nature. During the last few days of the month regular daily work must be completed and end-of-the-month reports, summaries, payroll, and customer statements for merchandise, services, and rentals must also be prepared. Many of these must be done at the end of the month. Some of the pressure can be relieved, however, by sending customer statements on a cycle basis throughout the month.

Appraisal

In reviewing the clerical work performed in the locker plants, it was found that the invoicing and billing function received the greatest emphasis. Just how complex an invoicing procedure can become is illustrated by the condition found in one plant.

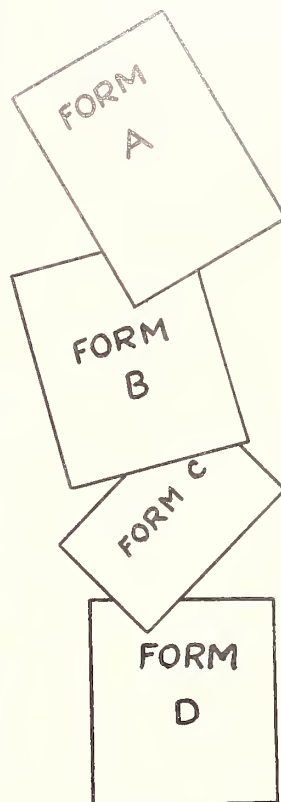
Three different invoices were used to record sales. One recorded the sale of meats and meat processing charges; a second recorded the sale of fowl; and a third, the sale of fruits and vegetables. Each of the three invoice forms was written in triplicate. When an invoice was paid, a receipt was written in duplicate.

Under this procedure, recording the sale and payment on just one transaction could require 11 forms -- 3 copies each of 3 invoices plus the duplicate receipt. If properly designed, one form could cover the invoicing of all merchandise and services as well as payment on account.

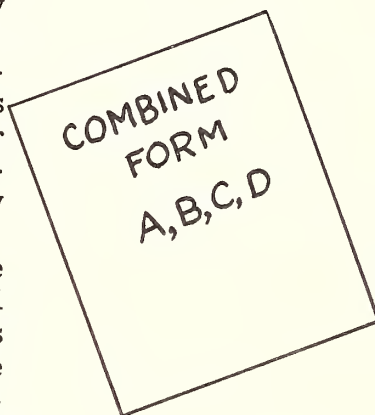
Analyzing Need for Forms. - It is well to analyze the purpose of the duplicate, and particularly the triplicate, copies of any form. In the above example, the third copy of the invoices was useless. Yet each time a supply was ordered from the printer, it was ordered in triplicate. Another manager was using the third copy of the invoice as a job work order. This shows ingenuity in using the tools at hand.

At another plant, information from a meat processing instruction card was being written three times. The initial instructions were written in duplicate, with the original going to the customer as a receipt. As the meats were processed by job lot, the information was recorded in a day book by date and in a notebook by alphabetical listing.

The first rewriting was to provide a duplicate record in case of loss or destruction of the original instructions. The alphabetical listing was necessary to locate the record when reference was required. If the processing instruction card was redesigned, the duplicate copy could be retained as a permanent record in a conventional alphabetical card file. The value of keeping duplicate



II



records is questionable. However, if the manager wanted a daily record, a third copy could easily be made at the initial writing.

It was common practice to write processing instructions and the completed work order on separate forms. Combining these forms would give the complete job history on one form and would avoid repetitive writing.

Check-Out System. - Several plants were using a check-out system as a control measure. This has a strong psychological effect on the customer, as he feels assured that only he has access to his locker and its contents. The opportunity to promote customer relations by this direct contact should not be minimized.

In one plant surveyed, all locker rentals were billed at the same time each year. There are two advantages in billing over a twelve-month cycle. First, it provides for an even distribution of the work load. Second, locker rentals are received as regular monthly income rather than as an annual lump sum. On the other hand, patrons are less likely to discontinue their locker if the rental comes due in the winter months when lockers are generally full of food.

One plant manager developed a unique system that practically eliminates all billings other than locker rentals. An individual inventory card is prepared for each customer who rents a locker. Each time the customer removes food-stuffs from his locker, the number of

packages is recorded and signed for. The duplicate copy of any unpaid invoice is clipped to this card and the customer's attention is discreetly drawn to this outstanding amount. Not only is there a saving in clerical cost, but also there is the advantage of prompt payment.

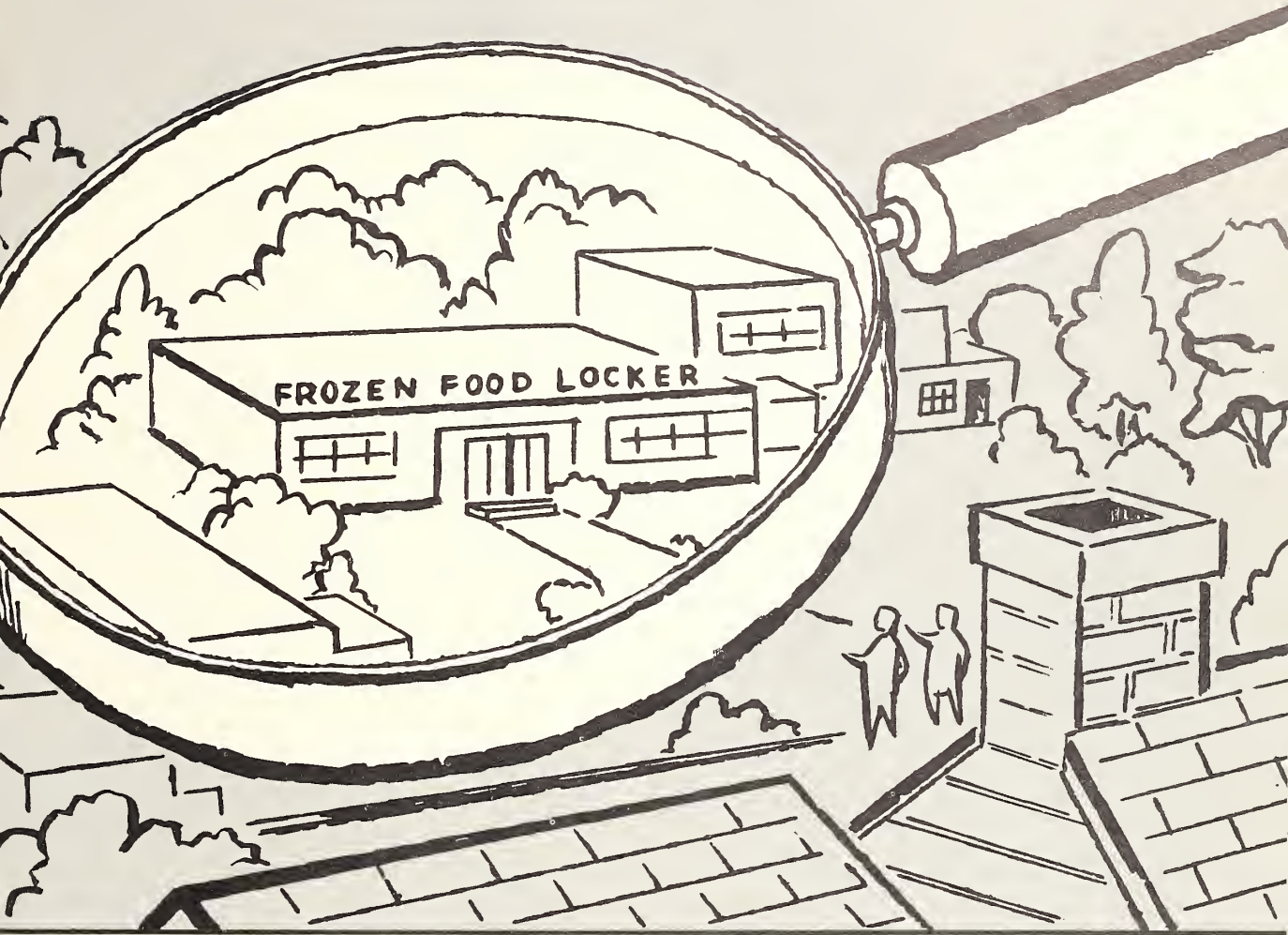
Over-the-Counter Sales. - The majority of plants surveyed made over-the-counter sales of meats, frozen foods, and miscellaneous grocery items. However, several plants had inadequate facilities to record small cash transactions. At one, the amount of a sale was indicated on a slip of paper and change was made from a common cash drawer. No attempt was made to classify sales, and no sales ticket or receipt was issued to the customer. An inexpensive second-hand cash register or a combination receipt register cash drawer would be worth while. With such equipment, information would be easily available for sales analysis.

In one plant, the management had only enough information to prepare tax reports. Other managers had fairly complete records and were able to analyze plant operation reasonably well.

Generally speaking, the office tasks were performed as a part-time assignment. In some small plants only a few hours a day were devoted to record keeping. In the larger plants surveyed, an employee was hired on a full-time basis for office work but usually performed other duties. Handling over-the-counter sales was most common.

Chapter 6

EVALUATION OF PLANTS STUDIED



An important management function is to adjust to meet changing times and needs.

Evaluation of plants studied

Evaluation questions

Assignment of rating points

EVALUATION OF PLANTS STUDIED

In this chapter we use a point system to evaluate the management of the eight plants included in the study. This is an attempt to measure objectively a rather difficult quality to appraise -- management ability. This system does not remove judgment. Rather, it seeks to direct judgment and provide a basis for appraising the several attributes of good management.

In considering the various aspects of good management, we divided the total task into eight parts. These are: production, finance, physical facilities, personnel, marketing-sales vigor, executive evaluation, economic function, and business success.

The importance of most of the eight points to successful management is self-evident. Two, however, executive evaluation and economic function, may require an explanation. In the former, we evaluate the effectiveness with which the manager directs his business. We wish to know if the success of the business is traceable to his effectiveness as a manager as opposed to, say, fortuitous circumstances over which he has exercised no control.

Perhaps the importance of point 7, economic function, can be made clear with an example. Recently a large manufacturing company announced that more than 60 percent of its current sales volume is coming from products which were unknown 10 years ago. Had the company been content to continue offering to the public only those products which were available before 1948, its business would be far less successful today.

An important management function is to innovate to meet changing consumer tastes, wants, and needs. A more prosperous economy, the general acceptance of home freezers, and other changes have brought with them a need for adjustment in the character of the locker business. Some managers have been aware of the need and have adjusted to it well; others have failed to make necessary adjustments.

Evaluation Questions

In evaluating the management functions of the eight plants, we considered many questions. A few of them are listed here. The discussions in the previous chapters indicate other points that we studied in making our appraisals.

*Management
Evaluation*

Production

Finance

Physical Facilities

Personnel

Marketing Sales Vigor

Executive Evaluation

Economic Function

Business Success

1. Production

Is the equipment up-to-date?

What has been the percentage of capacity operation of machinery and equipment year by year?

What incentive system is there?

Is the production for each day planned and scheduled?

Is each separate job in production handled by a single person? Does he have a qualified replacement?

Is there sufficient control so that the location of every item being handled by the plant is known at all times? Is every item properly identified so that its owner is known?

2. Finance

Does the plant manager keep adequate financial records such as accounts receivable ledger, accounts payable ledger, cash journal, and other books of account?

Are income statements and balance sheets prepared from the basic records at least once a year?

Are income statements and balance sheets analyzed either by comparative analysis, by computation of selected financial ratios, or both?

Does the business keep all of its assets, especially cash, working to produce more net income for the business?

At what rate are plants and equipment depreciated and what has been done with the funds?

3. Physical Facilities

What is the physical condition of plant and equipment? Is the insulation on the freezing and locker units good?

Are there adequate storage areas for inventory kept for re-sale and for meat processed for home freezers?

Are the facilities designed so that none of the major areas (such as those for slaughtering, curing, freezing, and processing) are a bottleneck?

Are the facilities built so that temporary seasonal expansion or permanent expansion can be undertaken fairly easily?

Are the physical facilities so designed that the plant can, on the average, work at 75 percent or more of capacity?

Does plant layout facilitate efficient production?

Is the plant kept clean? Does it meet health standards?

4. Personnel

Does the manager have an organized hiring procedure including at least an application blank and a personal interview?

Does the manager have a planned training program for new employees? For older employees to develop them for positions of greater responsibility?

Is there a definite policy as to starting wages and periodic review for increases?

Has the manager made a job evaluation study?

Does he have a definite policy as to vacation pay, sick leave and benefits, and pension plans?

Are all personnel evaluated periodically? Is this evaluation reviewed with the individual employee?

Does the manager have known promotion policies?

Are working conditions safe? Pleasant? Clean?

5. Marketing-Sales Vigor

Has the manager appraised his market opportunities?

Does he know his customers?

Has he made sales forecasts for the next year? Does he have any idea of the potential in his market?

Is the quality of the product and service fitted to the market?

What use has the manager made of promotional devices? Are sales aggressively pushed?

Does the manager know his costs well enough so that he can consider cost, particularly in processing, in making pricing decisions?

Are all accounts properly appraised before credit is granted? Is there a planned program for collecting accounts?

Are the accounts analyzed as to promptness of payment?

What percent of the lockers are rented?

6. Executive Evaluation

What are the manager's personal characteristics?

Does he lead through intensiveness and aggressiveness?

Do his activities tend to create enthusiasm within the organization?

Are the several policies established consistent with each other?

Have specific goals been set for next year? Has adequate consideration been given to the question of what resources are needed to reach these goals?

Is the manager training a replacement?

Does the manager have someone designated to be in charge when he is absent? Do all employees know who this replacement is?

Will the manager delegate responsibility and authority for certain jobs? Does he then let the assigned person do the job without supervision?

How closely does the manager supervise day-to-day activities within the plant.

7. Economic Function

What is the nature of the plant's business?

Has the fundamental nature of its business ever changed? How, when, and in which ways?

What changes in managerial personnel have occurred since the plant opened? What was the significance in each major instance?

How well has the company adjusted to changing economic conditions?

What is the history of the acquisition of its fixed assets?

8. Business Success

Has the business been financially successful?

Is the business earning a rate of return on its investment that is comparable to that earned by other businesses in the food industry?

Is the business earning a rate of return that compensates the owners for the risk of loss incurred by investing their money in a locker plant rather than in less risky investments such as government bonds, municipal bonds, or blue-chip stocks?

Have dividends or withdrawals been so large as to prevent an adequate rate of growth of surplus?

Assignment of Rating Points

There are two ways to assign points to each part of the management task. One is to assign points in proportion to the importance of each part to the total management task on the basis of all plants in an industry. This requires evaluation of all plants against this ideal or standard. Thus, one or a few persons must do the evaluation so that the standard is applied equitably to all plants.

The second way, which we used, is to assign an equal number of points to each part of the total task, 100 points in our evaluation. The eight plants are then rated for each part of the total management task. The plant or plants rating highest for each function receives 100 points. The others are rated proportionately. The sum of the points received by a plant for all eight parts can be compared to the maximum attainable (800 points) and also to the total points for the other plants. This gives an indication of the comparative quality of management.

Table 6 shows the results of our evaluation of the individual plants.

The total points earned by the managers of plants G, C, and D indicate

Table 6. - *Evaluation of management of eight frozen food locker plants*

Parts of the management task	Plants							
	A	B	C	D	E	F	G	H
Production	80	70	100	100	55	80	95	85
Finance	85	90	100	80	50	90	80	40
Physical facilities	90	70	100	100	40	75	95	90
Personnel	90	80	95	100	70	85	95	95
Marketing-sales vigor	95	75	80	100	95	85	100	75
Executive evaluation	85	60	95	90	40	85	100	85
Economic function	90	70	85	100	75	75	100	70
Business success	60	80	90	60	90	100	100	80
Total points	675	595	745	730	515	675	765	620

clearly the over-all high quality of their managements as compared to those in the other five plants. Yet, each of these three plants was comparatively weak in at least one part of the total management task. Plant D had a loss in 1955 so received a low rating as to business success. Plant G needs strengthening in finance, while plant C could use more marketing - sales vigor. Plants A and H are weak in business success and finance, respectively, although their over-all management is good.

The manager of plant E earned the lowest number of total points, 515 of a maximum of 800. The low number of total points indicates, in general, considerable opportunity for management improvement. Yet, this manager was very strong in marketing-sales vigor, and his plant had the highest return on investment. As mentioned previously, this high rate of return reflects, in part, a fortunate purchase of an existing locker plant at a favorable price. For the other six parts of the management task, this manager was rated the lowest or next to lowest of the eight managers.

By learning the parts of the management task in which he is weakest, a manager knows where to apply his efforts for improvement. He must be certain, however, that he continues his excellent record in his strong management areas while improving in his weak areas.

Each plant showed strength in one or more parts of the total management task and weakness in one or more parts. The differences in total points earned by the individual plants indicate that considerable opportunity for improvement exists for each manager. These findings take on more significance when we remember the plants included in our study were among the better-managed ones in the frozen food locker industry.

APPENDIX

Brief Descriptions of The Eight Plants Studied

Plant A. This plant is located in a large city. It has seven employees including the owner-manager. No detailed breakdown on sales volume is available, but the plant provides a large frozen food wholesale business to retail grocery stores. About 64 percent of sales are from merchandising. Of the 500 lockers, 400 are rented; no increase is planned. The plant handles packer beef and performs the usual services of a locker plant such as processing, curing, and quick freezing. The manager makes substantial use of premiums in connection with direct mail advertising campaigns. He hopes to expand his business by increased merchandising to owners of home freezers.

The manager dominates this business. At times he may take on more responsibilities than he should, as evidenced by his personal handling of a mass of detail. This has caused conditions in the office and customer area to become a little cluttered and untidy. Displays in the freezer cabinets in the customer area were somewhat inadequate and unattractive.

Plant B. The main plant in this four-branch operation is located in a city of over 50,000. The three branch plants are located in small rural communities. All four plants are within a radius of less than 20 miles. A large percentage of patrons are farmers. The four plants offer a total of about 2,200 lockers and employ 10 persons.

Although no great effort has been made to increase merchandising operations, the sale of frozen foods and packer meat has expanded. Part of the increase has come from a growing service to city customers. However, locker rental and custom processing together account for approximately 75 percent of gross revenue.

Plant C. This plant is located in a city with a population between 10,000 and 25,000. It is an attractive, orderly plant with a capacity of 1,000 lockers, but fewer are installed. The present manager established the business to provide locker and processing service to city and farm customers. There are no slaughtering facilities.

The business employs the owner-manager, his wife, and two other persons. During the most active season, some part-time help is engaged. This firm sells a limited amount of packer meat and miscellaneous supplies, in addition to the services provided. Locker rental provides about 30 percent and processing about 50 percent of total revenue.

Plant D. This plant is located in a small city. It is fully integrated in that it offers freezers, food plans, wholesale and retail meats including packer meat and that produced on its own feed lots, as well as the usual locker, processing, and slaughtering facilities.

It also acts as a jobber for a line of frozen food, and as a distributor of locker and meat market supplies.

Lockers installed total over 500 and there are 10 full or part-time employees.

Revenue from the business is distributed roughly as follows: Processing, 10 percent; locker rental, 5 percent; merchandising, 80 percent. Customers are divided between urban and rural areas.

Plant E. This plant is located in a medium-sized city.

The owner-manager formerly had a responsible sales position with a large company, and a salesman attitude is very evident in his operations. The business stresses freezer provisioning along with the sale of freezers and a food plan. This emphasis on merchandising is readily apparent from the breakdown of sales volume. In 1955, locker rental brought in 12 percent of sales volume; processing, 14.7 percent; and merchandising, 72.6 percent. The latter category has steadily increased at the expense of the first two. The plant sells packer beef exclusively. It has 650 of 850 lockers rented.

Probably because of his own interest in sales, the manager gives the two employees who work in processing very little supervision. They turn out what has to be done with little attention given to what might be accomplished. Likewise, records and housekeeping are considered less important than selling. Hence, not too much is done with either one. Inconsistent with the emphasis on sales, the merchandise display was not good.

Plant F. This plant is also located in a city of between 10,000 and 25,000 population. The plant was built to provide a custom slaughtering and meat processing service for farmers. Slaughtering facilities far in excess of those needed were built. This has saddled the business with a large mortgage.

The plant had an early period of poor management, but the present manager has done much to put it on its feet.

Much of the current success is due to his close supervision of all operations as well as his personal standing in the community. This strength also could be a weakness in that considerable business may be lost if the manager should leave.

Seven full-time employees, including the manager and his wife who works as the bookkeeper, and one part-time employee make up the work force. The manager does all the buying of beef on the hoof. Thus far, no replacement is being trained for buying livestock, although this requires a high degree of skill and considerable experience. The manager judges all employees by what he can do himself. This is particularly true for those working in slaughtering and processing.

Sales volume is divided as follows: 19.6 percent from locker rentals, 24.9 percent from service (processing), and 55.5 percent from trading (merchandise). The latter activity is the only one showing a relative increase. The plant has 690 of 750 lockers rented. The manager recognizes the need for increased sales volume, and particularly wants to increase custom slaughtering to make better use of excess facilities.

In addition to the usual services, the locker plant has a small retail food store. Here the manager attempts to provide a complete food store with emphasis on meats. His direct sales effort consists of radio and newspaper advertising.

Plant G. This plant is also located in a medium-sized city and has six full-time employees and one part-time, in addition to the manager-owner and his wife. The owner started the plant about 1947. After community confidence that had been destroyed by another plant's operations was restored, this business expanded steadily until last year.

The owner recognizes that he may have reached the limit of the business by present operations. He is beginning

to plan for changes that can be made when net income drops. These plans include increased freezer provisioning and the raising of his own cattle and hogs; in effect, he plans to become a small packer. This handling of more meat will necessitate expansion.

The sales volume of the plant is 13.9 percent from locker rentals, 34.9 percent from services and processing, and 50.8 percent from merchandising. Approximately 1,000 of 1,057 lockers are rented. Direct mail is used heavily to promote business, especially frozen fruit.

Although the owner-manager is recognized as the boss by all employees, he has instilled a sense of responsibility in each so that they work without immediate and direct supervision. The

employees, however, have no definite performance standards, other than the common one of turning out the work which needs to be done.

Plant H. This firm operates two plants in rural communities 10 to 15 miles apart. Together, they offer about 1,400 lockers, nearly all of them rented. They also service and provision about 1,400 home freezers, but do not operate a food plan as such. During peak volume periods, they slaughter up to 25 cattle or 35 hogs a day.

The business employs the manager-owner and five other full-time employees. There are some sales of packer as well as local beef and pork. In season, fruits and berries are sold in considerable volume. Most of the customers are country rather than city people..

93
92
185

NATIONAL AGRICULTURAL LIBRARY



1022725400